

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|------------------------------|---|-------------------|
| Local Unit of Government Type <input checked="" type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name Osceola County | County Osceola |
| Fiscal Year End December 31, 2006 | Opinion Date May 29, 2007 | Date Audit Report Submitted to State June 22, 2007 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ **NO** ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | | |
|---|--|-------------------------------------|--|------------------------------|
| We have enclosed the following: | | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | | <input checked="" type="checkbox"/> | | |
| Other (Describe) Single Audit | | <input checked="" type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC | | Telephone Number 906-495-5952 | | |
| Street Address 16978 S. Riley Avenue | | City Kincheloe | State MI | Zip 49788 |
| Authorizing CPA Signature <i>Kenneth A. Talsma</i> | | Printed Name Kenneth A. Talsma | | License Number 1101024989 |

COUNTY OF OSCEOLA, MICHIGAN

BASIC FINANCIAL STATEMENTS

December 31, 2006

OSCEOLA COUNTY, MICHIGAN

ORGANIZATION

MEMBERS OF THE COUNTY COMMISSION

| | | | |
|--------------|----------|----|----------------|
| COMMISSIONER | DISTRICT | #1 | MARK BROCK |
| COMMISSIONER | DISTRICT | #2 | ELMO HOAGLUND |
| COMMISSIONER | DISTRICT | #3 | RONALD SIKKEMA |
| COMMISSIONER | DISTRICT | #4 | ALAN TIEDT |
| COMMISSIONER | DISTRICT | #5 | ROGER FABER |
| COMMISSIONER | DISTRICT | #6 | DAVID BROOKS |
| COMMISSIONER | DISTRICT | #7 | LARRY EMIG |

APPOINTED/ELECTED OFFICIALS

| | |
|--------------------|-------------------|
| COUNTY COORDINATOR | SUSAN VANDERPOL |
| COUNTY TREASURER | CAROL J. HALLADAY |
| COUNTY CLERK | KAREN BLUHM |

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ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
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KENNETH A. TALSMA, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members
of the Board of Commissioners
County of Osceola, Michigan
301 West Upton Avenue
Reed City, MI 49677

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Osceola, Michigan as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County of Osceola's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the Osceola County Road Commission, which represent 99% of the assets and revenues of the Discretely Presented Component Units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, in so far as it relates to the amounts recorded for the Road Commission, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Osceola, Michigan as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2007 on our consideration of the County of Osceola's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Osceola's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The additional information regarding the Municipal Securities Disclosure Requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and is not a required part of the basic financial statements of the County of Osceola. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 29, 2007

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the County as a whole and present a longer-term view of the County's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the County's operations in more detail than the government-wide financial statements.

The County as a Whole

A few of the general highlights of 2006 were:

- Total net assets were \$13,071,712.
- Governmental activities net assets were \$6,534,419.
- Business-type activity net assets were \$6,537,293.
- Component Unit net assets were 11,507,980.

There were increases of \$659,138 and \$344,317 in net assets in the governmental activities and business-type activities respectively. A gain of \$1,101,394 in net assets was realized in the Component Units.

In a condensed format, the table below shows the net assets of Osceola County.

| | Governmental Activities | | Business-Type Activities | | Total | |
|------------------------------|----------------------------|----------------------|-----------------------------|---------------------|----------------------|----------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Current Assets | \$ 8,297,140 | \$ 13,539,833 | \$ 6,323,295 | \$ 5,965,713 | \$ 14,620,435 | \$ 19,505,546 |
| Noncurrent Assets | <u>7,107,190</u> | <u>3,625,910</u> | <u>215,934</u> | <u>229,333</u> | <u>7,323,124</u> | <u>3,855,243</u> |
| Total Assets | <u>\$ 15,404,330</u> | <u>\$ 17,165,743</u> | <u>\$ 6,539,229</u> | <u>\$ 6,195,046</u> | <u>\$ 21,943,559</u> | <u>\$ 23,360,789</u> |
| Current Liabilities | \$ 3,492,972 | \$ 5,753,603 | \$ 1,936 | \$ 2,070 | \$ 3,494,908 | \$ 5,755,673 |
| Noncurrent Liabilities | <u>5,376,939</u> | <u>5,536,859</u> | <u>-</u> | <u>-</u> | <u>5,376,939</u> | <u>5,536,859</u> |
| Total Liabilities | <u>8,869,911</u> | <u>11,290,462</u> | <u>1,936</u> | <u>2,070</u> | <u>8,871,847</u> | <u>11,292,532</u> |
| Net Assets | | | | | | |
| Invested in Capital Assets - | | | | | | |
| Net of Debt | 1,797,688 | 1,739,232 | 215,934 | 229,333 | 2,013,622 | 1,968,565 |
| Restricted | 2,433,806 | 1,861,005 | - | - | 2,433,806 | 1,861,005 |
| Unrestricted (Deficit) | <u>2,302,925</u> | <u>2,275,044</u> | <u>6,321,359</u> | <u>5,963,643</u> | <u>8,624,284</u> | <u>8,238,687</u> |
| Total Net Assets | <u>\$ 6,534,419</u> | <u>\$ 5,875,281</u> | <u>\$ 6,537,293</u> | <u>\$ 6,192,976</u> | <u>\$ 13,071,712</u> | <u>\$ 12,068,257</u> |

The current level of unrestricted net assets for our governmental activities stands at \$2,302,925, or about 21% of expenditures. This is within the targeted range set by the County Board of Commissioners during its last budget process.

The following table shows the activities of the County.

| | Governmental Activities | | Business-Type Activities | | Total | |
|------------------------------------|----------------------------|---------------------|-----------------------------|---------------------|----------------------|----------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Program Revenues | | | | | | |
| Charges for Services | \$ 1,974,218 | \$ 1,809,098 | \$ 541,250 | \$ 490,607 | \$ 2,515,468 | \$ 2,299,705 |
| Operating Grants and Contributions | 2,775,261 | 1,750,807 | - | - | 2,775,261 | 1,750,807 |
| Capital Grants and Contributions | 95,746 | - | - | - | 95,746 | - |
| General Revenues | | | | | | |
| Property Taxes | 6,467,139 | 6,309,356 | - | - | 6,467,139 | 6,309,356 |
| Unrestricted Investment Earnings | 264,210 | 173,061 | 198,056 | 121,975 | 462,266 | 295,036 |
| Transfers and Other Revenue | 74,435 | 817,306 | (103,089) | (128,779) | (28,654) | 688,527 |
| Total Revenues | <u>11,651,009</u> | <u>10,859,628</u> | <u>636,217</u> | <u>483,803</u> | <u>12,287,226</u> | <u>11,343,431</u> |
| Program Expenses | | | | | | |
| Legislative | 67,745 | 67,768 | - | - | 67,745 | 67,768 |
| Judicial | 1,279,337 | 1,146,599 | - | - | 1,279,337 | 1,146,599 |
| General Government | 2,236,316 | 2,114,924 | - | - | 2,236,316 | 2,114,924 |
| Public Safety | 3,343,482 | 3,110,290 | - | - | 3,343,482 | 3,110,290 |
| Public Works | 1,784 | 56 | - | - | 1,784 | 56 |
| Health and Welfare | 3,448,813 | 2,727,793 | - | - | 3,448,813 | 2,727,793 |
| Other Expenses | 360,463 | 1,018,211 | - | - | 360,463 | 1,018,211 |
| Loss on Equipment Disposal | 7,784 | - | - | - | 7,784 | - |
| Interest Expense – Unallocated | 246,147 | 291,831 | - | - | 246,147 | 291,831 |
| Tax Collection | - | - | 30,969 | 7,311 | 30,969 | 7,311 |
| Parks and Recreation | - | - | 200,073 | 160,635 | 200,073 | 160,635 |
| Sheriff Commissary | - | - | 60,858 | 42,645 | 60,858 | 42,645 |
| Total Expenses | <u>10,991,871</u> | <u>10,477,472</u> | <u>291,900</u> | <u>210,591</u> | <u>11,283,771</u> | <u>10,688,063</u> |
| Changes in Net Assets | 659,138 | 382,156 | 344,317 | 273,212 | 1,003,455 | 655,368 |
| Net Assets – Beginning | <u>5,875,281</u> | <u>5,493,125</u> | <u>6,192,976</u> | <u>5,919,764</u> | <u>12,068,257</u> | <u>11,412,889</u> |
| Net Assets – Ending | <u>\$ 6,534,419</u> | <u>\$ 5,875,281</u> | <u>\$ 6,537,293</u> | <u>\$ 6,192,976</u> | <u>\$ 13,071,712</u> | <u>\$ 12,068,257</u> |

Governmental Activities

Revenue from property taxes increased 2.5% from the previous year, gaining \$157,783, which was \$119,036 greater than the previous year's gain. This increase over prior years' gains was a result of Tax Tribunal decisions as well as the State eliminating Revenue Sharing to counties with implementation of the early July tax collection and the creation of the Revenue Sharing Reserve Funds.

Health insurance costs decreased during the current year from \$527,804 in 2005 to \$455,605 in 2006. This 13.6% decrease was due to many employees opting out of the program due to higher employee premiums. Self-funding of prescription drugs has increased the cost of prescriptions. Fiscal year 2006 saw a 14.8% increase in the cost of prescription drugs. Because of the calendar fiscal year, health insurance cost projections can only be estimated during the budget process for the next fiscal year budget cycle. Once the renewal information is received, adjustments are made. The opening for the employees to make health insurance choices comes after the budget forecasts near the start of the fiscal year so true costs are not solidified until then but are consistent throughout the entire year.

The wage rate increases were three percent for Sheriff's road patrol deputies and Emergency Medical Services paramedics, 3.0% for general non-union employees, and 2.25% for corrections officers for fiscal year 2006. The union contracts vary between three and four year agreements with wage increases varying among the union contracts, some tied with health and retirement benefit level changes.

The County continues to strive to update technology and streamline technology functions. A technology coordinator was hired as full-time in 2006 to oversee the County's various systems and work with software vendors. The County has replaced servers and improved networking capabilities. This included a change of financial and tax software during 2006.

Business-Type Activities

The County business-type activities are multi-faceted. They range from Tax Collection, County Parks, and Sheriff Commissary. The Tax Collection funds significantly support the General Fund. Charges for services and fees support the operations of the County Parks and the Sheriff Commissary. As with its other services, business-type activities are broad based and in many cases, the predominant provider of that service for the citizen.

The County's Funds

Our analysis of the County's major funds begins on page 10 following the entity wide financial statements. The individual fund financial statements provide detail information about the most significant funds, not the County as a whole. The County Board of Commissioners creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The County's major funds for 2006 include the General Fund, which includes the Sheriff's Department Road Patrol millage, Revenue Sharing Reserve, EMS, Building Authority Debt, and the Delinquent Tax Funds. Funds supported by special millages consist of the Commission on Aging Funds and Emergency Medical Services Fund.

The General Fund supports most of the County's governmental services. The costliest are the police, courts, and law enforcement functions. The Jail is augmented with the renting of inmate space (beds) to other governmental entities. The Delinquent Tax Fund is supported by interest and fees from the collection of taxes. The Commission on Aging Funds are used to provide services to senior and disabled populations and to match grant dollars for local support.

General Fund Budgetary Highlights

The General Fund realized \$407,158 more in revenues than anticipated for the fiscal year. The General Fund operations also expended \$477,059 less than appropriated. Operating Transfers were less than budgeted for both revenues and expenditures and resulted in a positive net budget variance of \$93,053.

All of the General Fund services departments expended less than the budgeted amount for departmental operations in 2006. Additional revenues over projected budgetary amounts were realized in the areas of Taxes, Licenses and Permits, Charges for Services, Refunds and Reimbursements, and Interest & Rentals. Less was received than budgeted from Federal Sources, Local Sources, and State Sources. Elected Officials and Department Heads continue to exhibit diligence across the board of keeping within budget parameters or identifying problems before they occur.

Over the course of the year the County Board amended the General Fund budget to reflect adjustments in revenues that developed in the year. The major adjustments were in Elections, General Operations, Sheriffs, Jail, Emergency Management, 911 Operations, Insurance and Bonds, and Employee Benefits.

Other Funds

The following funds ended the year with a fund balance of ten percent or greater: Building Inspections, Emergency Medical Services, Michigan Justice Training, Friend of the Court Fund, Community Corrections, Register of Deeds Automation, Budget Stabilization, Disaster Contingency, Officer Training, Drug Enforcement, DARE Operations, Commission on Aging, Equipment & Maintenance, Housing Grant and General Fund. All of this provides for stability, future flexibility, and a mechanism for setting aside funds for services and equipment replacement.

Capital Asset and Debt Administration

During the 2006 period, the County invested or acquired \$352,481 in capital assets that meet the dollar threshold of the reporting requirement. These purchases included the construction of a county building to house emergency management and building inspector, five vehicles, as well as other equipment.

The County reduced its bond debt load by \$165,000 in principal payments.

Economic Factors and Next Year's Budgets and Rates

This year produced a dichotomy of events. There was continued fund stabilization in all funds. There was investment in an equipment replacement fund in two of the smaller funds as was appropriated. There were monumental technological improvements in several areas that affect County operations. This all reflected a continued and more distinct upward trend in the County's financial posture. State Revenue Sharing further complicated future funding as the State's plan, where it provided provisions for funds that would be anticipated, left cash flow and potential public approval issues that will yet to be faced. We were pleased to end the current year with very healthy fund statuses in all funds and are still optimistic that the future will be proactive toward growth and progress.

Component Unit

A complete financial statement and management's discussion and analysis may be obtained from the Osceola County Road Commission.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have any questions about this report or need additional information, please contact the Coordinator's Office at 301 West Upton Avenue, Reed City, Michigan 49677.

Basic Financial Statements

County of Osceola, Michigan

Statement of Net Assets December 31, 2006

| | Primary Government | | | |
|--|----------------------|---------------------|----------------------|----------------------|
| | Governmental | Business-type | | Component |
| | Activities | Activities | Totals | Units |
| ASSETS: | | | | |
| Current: | | | | |
| Cash & Equivalents | \$ 3,281,730 | \$ 4,476,943 | \$ 7,758,673 | \$ 561,661 |
| Investments | 200,392 | 1,046,047 | 1,246,439 | - |
| Receivables: | | | | |
| Accounts | 249,528 | - | 249,528 | 666,582 |
| Taxes | 4,127,618 | 712,389 | 4,840,007 | - |
| Interest | - | 87,916 | 87,916 | - |
| Leases | 75,000 | - | 75,000 | - |
| Prepaid Expenses | 152,390 | - | 152,390 | - |
| Due from Governmental Units | 210,482 | - | 210,482 | - |
| Inventories | - | - | - | 244,430 |
| Noncurrent Assets: | | | | |
| Leases Receivable | 3,525,000 | - | 3,525,000 | - |
| Capital Assets (Not Depreciated) | 230,687 | 37,550 | 268,237 | 5,536,264 |
| Capital Assets (Net of Accumulated Depreciation) | 3,351,503 | 178,384 | 3,529,887 | 8,884,056 |
| TOTAL ASSETS | \$ 15,404,330 | \$ 6,539,229 | \$ 21,943,559 | \$ 15,892,993 |
| LIABILITIES: | | | | |
| Current Liabilities: | | | | |
| Accounts Payable | \$ 205,776 | \$ - | \$ 205,776 | \$ 203,038 |
| Accrued Liabilities | 194,051 | 856 | 194,907 | 19,528 |
| Accrued Interest Payable | 50,597 | - | 50,597 | - |
| Due to Governmental Units | - | 1,080 | 1,080 | 163 |
| Deferred Revenue | 2,856,896 | - | 2,856,896 | - |
| Capital Leases | 15,652 | - | 15,652 | 75,000 |
| Installment Loans | - | - | - | 96,000 |
| Bonds Payable | 170,000 | - | 170,000 | 4,613 |
| Noncurrent Liabilities: | | | | |
| Vested Employee Benefits | 178,089 | - | 178,089 | 268,126 |
| Capital Leases | 8,850 | - | 8,850 | 3,525,000 |
| Installment Loans | - | - | - | 193,545 |
| Bonds Payable | 5,190,000 | - | 5,190,000 | - |
| TOTAL LIABILITIES | 8,869,911 | 1,936 | 8,871,847 | 4,385,013 |
| NET ASSETS: | | | | |
| Invested in Capital Assets (net of related debt) | 1,797,688 | 215,934 | 2,013,622 | 10,530,775 |
| Restricted for County Road | - | - | - | 962,082 |
| Restricted for Other Purposes | 2,433,806 | - | 2,433,806 | - |
| Unrestricted | 2,302,925 | 6,321,359 | 8,624,284 | 15,123 |
| TOTAL NET ASSETS | \$ 6,534,419 | \$ 6,537,293 | \$ 13,071,712 | \$ 11,507,980 |

County of Osceola, Michigan

Statement of Activities Year Ended December 31, 2006

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | | |
|--|----------------|-------------------------|--|--|--|-----------------------------|-----------------|--------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | | Component Units |
| | | | | | Governmental Activities | Business-Type Activities | Total | |
| Primary Government: | | | | | | | | |
| Governmental Activities: | | | | | | | | |
| Legislative | \$ 67,745 | \$ - | \$ - | \$ - | \$ (67,745) | \$ - | \$ (67,745) | \$ - |
| Judicial | 1,279,337 | 426,902 | 339,573 | - | (512,862) | - | (512,862) | - |
| General Government | 2,236,316 | 438,533 | 510,215 | 95,746 | (1,191,822) | - | (1,191,822) | - |
| Public Safety | 3,343,482 | 335,036 | 467,912 | - | (2,540,534) | - | (2,540,534) | - |
| Public Works | 1,784 | - | - | - | (1,784) | - | (1,784) | - |
| Health & Welfare | 3,448,813 | 773,747 | 1,457,561 | - | (1,217,505) | - | (1,217,505) | - |
| Other Expenses | 360,463 | - | - | - | (360,463) | - | (360,463) | - |
| Interest Expense - Unallocated | 246,147 | - | - | - | (246,147) | - | - | - |
| Total Governmental Activities | 10,984,087 | 1,974,218 | 2,775,261 | 95,746 | (6,138,862) | - | (5,892,715) | - |
| Business-type activities: | | | | | | | | |
| Tax Collection | 30,969 | 281,769 | - | - | - | 250,800 | 250,800 | - |
| Parks & Recreation | 200,073 | 198,156 | - | - | - | (1,917) | (1,917) | - |
| Commissary | 60,858 | 61,325 | - | - | - | 467 | 467 | - |
| Total Business-type Activities | 291,900 | 541,250 | - | - | - | 249,350 | 249,350 | - |
| Total Primary Government | \$ 11,275,987 | \$ 2,515,468 | \$ 2,775,261 | \$ 95,746 | (6,138,862) | 249,350 | (5,643,365) | - |
| Component Units: | | | | | | | | |
| Road Commission | \$ 3,776,100 | \$ 15,840 | \$ 3,370,384 | \$ 931,565 | | | | 541,689 |
| Economic Development | 64,185 | - | 28,668 | - | | | | (35,517) |
| Drain Revolving | - | 7,005 | - | - | | | | 7,005 |
| Total Component Units | 3,840,285 | 22,845 | 3,399,052 | 931,565 | | | | 513,177 |
| Total | \$ 15,116,272 | \$ 2,538,313 | \$ 6,174,313 | \$ 1,027,311 | | | | |
| General Revenues and Transfers: | | | | | | | | |
| Taxes | | | | | 6,467,139 | - | 6,467,139 | - |
| Investment Earnings (Loss) | | | | | 264,210 | 198,056 | 462,266 | 37,589 |
| Loss on Equipment Disposal | | | | | (7,784) | - | (7,784) | 514,343 |
| Other | | | | | 1,447 | 6,184 | 7,631 | - |
| Transfers - net | | | | | 72,988 | (109,273) | (36,285) | 36,285 |
| Total General Revenues and Transfers | | | | | 6,798,000 | 94,967 | 6,892,967 | 588,217 |
| Changes in Net Assets | | | | | 659,138 | 344,317 | 1,003,455 | 1,101,394 |
| Net Assets - Beginning | | | | | 5,875,281 | 6,192,976 | 12,068,257 | 10,406,586 |
| Net Assets - Ending | | | | | \$ 6,534,419 | \$ 6,537,293 | \$ 13,071,712 | \$ 11,507,980 |

County of Osceola, Michigan

Balance Sheet Governmental Funds December 31, 2006

| | General | Revenue Sharing Reserve | EMS | Building Authority | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|-------------------------------|-------------------|-----------------------|--------------------------------|--------------------------------|
| ASSETS: | | | | | | |
| Cash & Equivalents - Unrestricted | \$ 990,305 | \$ 1,204,510 | \$ 151,888 | \$ - | \$ 935,027 | \$ 3,281,730 |
| Investments | 200,392 | - | - | - | - | 200,392 |
| Receivables: | | | | | | |
| Accounts | 160 | - | 136,201 | - | 113,167 | 249,528 |
| Taxes | 1,922,421 | 1,168,925 | 575,726 | - | 460,546 | 4,127,618 |
| Leases | - | - | - | 3,600,000 | - | 3,600,000 |
| Prepaid Expenditures | 152,390 | - | - | - | - | 152,390 |
| Due from Other Funds | 76,287 | - | - | - | - | 76,287 |
| Advances From Other Funds | 2,000 | - | - | - | - | 2,000 |
| Due from Governmental Units | 161,520 | - | - | - | 48,962 | 210,482 |
| TOTAL ASSETS | <u>\$ 3,505,475</u> | <u>\$ 2,373,435</u> | <u>\$ 863,815</u> | <u>\$ 3,600,000</u> | <u>\$ 1,557,702</u> | <u>\$ 11,900,427</u> |
| LIABILITIES: | | | | | | |
| Due to Other Funds | \$ - | \$ - | \$ 34,762 | \$ - | \$ 41,525 | \$ 76,287 |
| Accounts Payable | 124,732 | - | 27,982 | - | 53,062 | 205,776 |
| Accrued Liabilities | 128,665 | - | 30,118 | - | 35,268 | 194,051 |
| Advances to Other Funds | - | - | - | - | 2,000 | 2,000 |
| Deferred Revenue | 1,820,624 | - | 575,726 | 3,600,000 | 460,546 | 6,456,896 |
| TOTAL LIABILITIES | <u>2,074,021</u> | <u>-</u> | <u>668,588</u> | <u>3,600,000</u> | <u>592,401</u> | <u>6,935,010</u> |
| FUND BALANCES: | | | | | | |
| Reserved | - | 2,373,435 | - | - | 60,371 | 2,433,806 |
| Unreserved: | | | | | | |
| Undesignated | 1,429,454 | - | 195,227 | - | 904,930 | 2,529,611 |
| Designated | 2,000 | - | - | - | - | 2,000 |
| TOTAL FUND BALANCES | <u>1,431,454</u> | <u>2,373,435</u> | <u>195,227</u> | <u>-</u> | <u>965,301</u> | <u>4,965,417</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 3,505,475</u> | <u>\$ 2,373,435</u> | <u>\$ 863,815</u> | <u>\$ 3,600,000</u> | <u>\$ 1,557,702</u> | |

Reconciliation to amounts reported for governmental activities in the statement of net assets:

| | |
|---|---------------------|
| Capital assets used by governmental activities are not financial resources and therefore are not reported in the funds. | 3,582,190 |
| Long term notes payable for governmental activities not due and payable in the current period. | (5,368,850) |
| Compensated absences liability not recognized in the funds. | (178,089) |
| Capital leases payable for governmental activities not due and payable in current period. | (15,652) |
| Deferred revenue on lease receivable is recognized as revenue under full accrual. | 3,600,000 |
| Accrued interest expense on long-term debt not recognized in the funds. | (50,597) |
| Net assets of governmental activities | <u>\$ 6,534,419</u> |

County of Osceola, Michigan

Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds Year Ended December 31, 2006

| | General | Revenue Sharing Reserve | EMS | Building Authority | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|-------------------------------|-------------------|-----------------------|--------------------------------|--------------------------------|
| REVENUES: | | | | | | |
| Taxes | \$ 4,302,258 | \$ 1,157,795 | \$ 558,515 | \$ - | \$ 448,571 | \$ 6,467,139 |
| Licenses & Permits | 32,745 | - | - | - | 12,223 | 44,968 |
| Federal Sources | 222,914 | - | - | - | 770,429 | 993,343 |
| State Sources | 319,107 | - | 12,620 | - | 1,200,877 | 1,532,604 |
| Local Sources | 17,834 | - | - | 235,156 | 14,160 | 267,150 |
| Charges for Services | 938,040 | - | 773,747 | - | 292,543 | 2,004,330 |
| Refunds & Reimbursements | 389,556 | - | - | - | 27,991 | 417,547 |
| Interest & Rentals | 171,850 | 47,755 | 16,075 | - | 28,530 | 264,210 |
| Other Revenue | 186,003 | - | 11,591 | - | 86,408 | 284,002 |
| TOTAL REVENUES | 6,580,307 | 1,205,550 | 1,372,548 | 235,156 | 2,881,732 | 12,275,293 |
| EXPENDITURES: | | | | | | |
| Legislative | 67,075 | - | - | - | - | 67,075 |
| Judicial | 856,426 | - | - | - | 413,974 | 1,270,400 |
| General Government | 1,955,889 | - | - | - | - | 1,955,889 |
| Public Safety | 2,635,980 | - | - | - | 586,453 | 3,222,433 |
| Public Works | 129 | - | - | - | - | 129 |
| Health & Welfare | 75,214 | - | 1,235,261 | - | 2,166,558 | 3,477,033 |
| Capital Outlay | - | - | 22,161 | - | 444,691 | 466,852 |
| Debt Service | - | - | - | 235,156 | 174,747 | 409,903 |
| Other Expenditures | 867,217 | - | - | - | 1,542 | 868,759 |
| TOTAL EXPENDITURES | 6,457,930 | - | 1,257,422 | 235,156 | 3,787,965 | 11,738,473 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 122,377 | 1,205,550 | 115,126 | - | (906,233) | 536,820 |
| OTHER FINANCING SOURCES (USES): | | | | | | |
| Operating Transfers In | 572,178 | - | - | - | 966,865 | 1,539,043 |
| Operating Transfers Out | (618,612) | (508,000) | (55,412) | - | (284,031) | (1,466,055) |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | 75,943 | 697,550 | 59,714 | - | (223,399) | 609,808 |
| FUND BALANCES, JANUARY 1 | 1,355,511 | 1,675,885 | 135,513 | - | 1,188,700 | 4,355,609 |
| FUND BALANCES, DECEMBER 31 | \$ 1,431,454 | \$ 2,373,435 | \$ 195,227 | \$ - | \$ 965,301 | \$ 4,965,417 |

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended December 31, 2006**

Net Changes in fund balances – total governmental funds \$ 609,808

The change in net assets reported for governmental activities in the
Statement of Activities is different because:

Governmental funds reported capital outlays as expenditures.
However, in the statement of activities, the cost of those assets
is capitalized and the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense.
This is the amount by which depreciation expense (\$388,417)
and loss on disposal of assets (\$7,784) exceeded capital outlays
of \$352,481. (43,720)

Repayment of bond principal is an expenditure in the governmental
fund but reduces the liability in the statement of net assets. 165,000

Repayment of capital lease is an expenditure in the governmental
fund but reduces liability in statement of net assets. 29,876

Receipt of lease proceeds is an other financing source in the
governmental funds, but is recognized as an increase in
liability on the statement of net assets. (17,700)

Under the modified accrual basis of accounting used in governmental
funds, expenditures are not recognized for transactions that are not
normally paid with expendable available financial resources. In the
statement of activities, however, which is presented on the accrual
basis, expenses, and liabilities are reported regardless of when financial
resources are available. In addition, interest on long-term debt is not
recognized under the modified accrual basis of accounting until due,
rather than as it accrues. This adjustment combines the following net
changes:

| | | |
|---------------------------|--------------|---------|
| Compensated absences | (8,277) | |
| Accrued interest on bonds | <u>(849)</u> | |
| | | (9,126) |

Deferred revenue recognized as earned income (75,000)

Changes in net assets of governmental funds \$ 659,138

Statement of Net Assets
Proprietary Funds
December 31, 2006

| | Enterprise Funds | | | |
|--|----------------------------|---------------------------|-------------------|---------------------|
| | Prior Delinquent Tax | 2005 Delinquent Tax | Other Funds | Totals |
| ASSETS: | | | | |
| Cash & Equivalents - Unrestricted | \$ 2,741,309 | \$ 1,159,729 | \$ 575,905 | \$ 4,476,943 |
| Investments | 1,046,047 | - | - | 1,046,047 |
| Receivables: | | | | |
| Taxes | 11,564 | 623,288 | 77,537 | 712,389 |
| Interest | - | 62,329 | 25,587 | 87,916 |
| Due from Other Funds | 1,816,800 | - | - | 1,816,800 |
| Capital Assets - net | - | - | 215,934 | 215,934 |
| TOTAL ASSETS | \$ 5,615,720 | \$ 1,845,346 | \$ 894,963 | \$ 8,356,029 |
| LIABILITIES: | | | | |
| Due to Others | \$ 736 | \$ - | \$ 344 | \$ 1,080 |
| Accrued Liabilities | - | - | 856 | 856 |
| Due to Other Funds | - | 1,650,000 | 166,800 | 1,816,800 |
| TOTAL LIABILITIES | 736 | 1,650,000 | 168,000 | 1,818,736 |
| NET ASSETS: | | | | |
| Invested in Capital Assets (net of related debt) | - | - | 215,934 | 215,934 |
| Unrestricted | 5,614,984 | 195,346 | 511,029 | 6,321,359 |
| TOTAL NET ASSETS | \$ 5,614,984 | \$ 195,346 | \$ 726,963 | \$ 6,537,293 |

**Statement of Revenues, Expenses, and
Changes in Net Assets - Proprietary Funds
Year Ended December 31, 2006**

| | Enterprise Funds | | | |
|---|----------------------------|---------------------------|-------------------|---------------------|
| | Prior Delinquent Tax | 2005 Delinquent Tax | Other Funds | Totals |
| OPERATING REVENUES: | | | | |
| Charges for Services | \$ - | \$ 176,277 | \$ 320,072 | \$ 496,349 |
| Interest & Rentals | 4,439 | - | 40,462 | 44,901 |
| Other Revenue | 6,184 | - | - | 6,184 |
| Total Operating Revenues | 10,623 | 176,277 | 360,534 | 547,434 |
| OPERATING EXPENSES: | | | | |
| Personnel Services | - | - | 92,453 | 92,453 |
| Utilities | - | - | 27,176 | 27,176 |
| Repairs & Maintenance | - | - | 23,270 | 23,270 |
| Other Supplies & Expenses | 2,494 | 4,148 | 128,960 | 135,602 |
| Depreciation | - | - | 13,399 | 13,399 |
| Total Operating Expenses | 2,494 | 4,148 | 285,258 | 291,900 |
| OPERATING INCOME (LOSS) | 8,129 | 172,129 | 75,276 | 255,534 |
| NON-OPERATING REVENUES (EXPENSES): | | | | |
| Interest Earnings | 155,269 | 23,217 | 19,570 | 198,056 |
| Total Non-Operating Revenues (Expenses) | 155,269 | 23,217 | 19,570 | 198,056 |
| Income (loss) before transfers | 163,398 | 195,346 | 94,846 | 453,590 |
| Operating Transfers In | 258,486 | - | 10,000 | 268,486 |
| Operating Transfers Out | (128,788) | - | (248,971) | (377,759) |
| CHANGES IN NET ASSETS | 293,096 | 195,346 | (144,125) | 344,317 |
| NET ASSETS, JANUARY 1 | 5,321,888 | - | 871,088 | 6,192,976 |
| NET ASSETS, DECEMBER 31 | <u>\$ 5,614,984</u> | <u>\$ 195,346</u> | <u>\$ 726,963</u> | <u>\$ 6,537,293</u> |

Statement of Cash Flows
Proprietary Funds
Year Ended December 31, 2006

| | Enterprise Funds | | | |
|---|----------------------------|---------------------------|----------------|--------------|
| | Prior Delinquent Tax | 2005 Delinquent Tax | Other Funds | Totals |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | | |
| Cash Received From Customers or Users | \$ 25,674 | \$ 1,993,360 | \$ 1,055,739 | \$ 3,074,773 |
| Cash Payments to Suppliers/Others | (2,494) | (2,506,848) | (271,993) | (2,781,335) |
| Internal Activity - Receipts (Payments) to Other Funds | (644,400) | 1,650,000 | (1,005,600) | - |
| Net Cash Provided (Used) by Operating Activities | (621,220) | 1,136,512 | (221,854) | 293,438 |
| CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | |
| Net Operating Transfers In (Out) | 129,698 | - | (238,971) | (109,273) |
| Net Cash Provided (Used) by Non-Capital and Related Financing Activities | 129,698 | - | (238,971) | (109,273) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | | |
| Net Sale or (Purchase) of Investments | 674,537 | - | - | 674,537 |
| Net Cash Provided (Used) by Capital and Related Financing Activities | 674,537 | - | - | 674,537 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | |
| Interest Income | 155,269 | 23,217 | 19,570 | 198,056 |
| Net Cash Provided (Used) by Investing Activities | 155,269 | 23,217 | 19,570 | 198,056 |
| Net Increase (Decrease) in Cash and Equivalents | 338,284 | 1,159,729 | (441,255) | 1,056,758 |
| Balances - Beginning of the Year | 2,403,025 | - | 1,017,160 | 3,420,185 |
| Balances - End of the Year | \$ 2,741,309 | \$ 1,159,729 | \$ 575,905 | \$ 4,476,943 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | |
| Operating Income (Loss) | \$ 8,129 | \$ 172,129 | \$ 75,276 | \$ 255,534 |
| Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | |
| Depreciation | - | - | 13,399 | 13,399 |
| (Increase) Decrease in Assets: | | | | |
| Taxes Receivable | 15,051 | (623,288) | 621,768 | 13,531 |
| Interest Receivable | - | (62,329) | 60,439 | (1,890) |
| Due from Other Funds | (644,400) | - | - | (644,400) |
| Due from Others | - | - | 12,998 | 12,998 |
| Increase (Decrease) in Liabilities: | | | | |
| Due to Other Funds | - | 1,650,000 | (1,005,600) | 644,400 |
| Accounts Payable | - | - | 344 | 344 |
| Accrued Liabilities | - | - | (478) | (478) |
| Net Cash Provided (Used) by Operating Activities | \$ (621,220) | \$ 1,136,512 | \$ (221,854) | \$ 293,438 |

Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2006

| | <u>Agency Funds</u> |
|-------------------------|----------------------------------|
| ASSETS: | |
| Cash & Equivalents: | |
| Unrestricted | <u>\$ 919,633</u> |
| TOTAL ASSETS | <u><u>\$ 919,633</u></u> |
| LIABILITIES: | |
| Accounts Payable | \$ 74,686 |
| Due to Others | <u>844,947</u> |
| TOTAL LIABILITIES | <u><u>\$ 919,633</u></u> |

Component Units

County of Osceola, Michigan

Statement of Net Assets Component Units December 31, 2006

| | Road Commission | Economic Development Corporation | Revolving Drain | Totals |
|--|----------------------|--|--------------------|----------------------|
| ASSETS: | | | | |
| Current: | | | | |
| Cash & Equivalents - Unrestricted | \$ 550,502 | \$ 8,499 | \$ 2,660 | \$ 561,661 |
| Accounts Receivable | 662,618 | - | 3,964 | 666,582 |
| Inventories | 244,430 | - | - | 244,430 |
| Noncurrent Assets: | | | | |
| Capital Assets (not depreciated) | 5,536,264 | - | - | 5,536,264 |
| Capital Assets (net of accumulated depreciation) | 8,884,056 | - | - | 8,884,056 |
| TOTAL ASSETS | \$ 15,877,870 | \$ 8,499 | \$ 6,624 | \$ 15,892,993 |
| LIABILITIES: | | | | |
| Current Liabilities: | | | | |
| Accounts Payable | \$ 203,038 | \$ - | \$ - | \$ 203,038 |
| Accrued Liabilities | 19,528 | - | - | 19,528 |
| Due to Others | 163 | - | - | 163 |
| Capital Leases | 75,000 | - | - | 75,000 |
| Performance Bonds Payable | 4,613 | - | - | 4,613 |
| Installment Loans | 96,000 | - | - | 96,000 |
| Total Current Liabilities | 398,342 | - | - | 398,342 |
| Noncurrent Liabilities: | | | | |
| Capital Leases | 3,525,000 | - | - | 3,525,000 |
| Installment Loans | 193,545 | - | - | 193,545 |
| Vested Employee Benefits | 268,126 | - | - | 268,126 |
| Total Noncurrent Liabilities | 3,986,671 | - | - | 3,986,671 |
| TOTAL LIABILITIES | 4,385,013 | - | - | 4,385,013 |
| NET ASSETS: | | | | |
| Invested in Capital Assets, net of related debt | 10,530,775 | - | - | 10,530,775 |
| Restricted for County Road | 962,082 | - | - | 962,082 |
| Unrestricted | - | 8,499 | 6,624 | 15,123 |
| TOTAL NET ASSETS | \$ 11,492,857 | \$ 8,499 | \$ 6,624 | \$ 11,507,980 |

County of Osceola, Michigan

Statement of Activities Component Units Year Ended December 31, 2006

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | | Total |
|---|---------------------|-------------------------|--|--|--|--|--------------------|----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Road Commission | Economic Development Corporation | Drain Revolving | |
| Road Commission: | | | | | | | | |
| Public Works | \$ 3,776,100 | \$ 15,840 | \$ 3,370,384 | \$ 931,565 | \$ 541,689 | \$ - | \$ - | \$ 541,689 |
| Economic Development Corporation: | | | | | | | | |
| Economic Development | 64,185 | - | 28,668 | - | - | (35,517) | - | (35,517) |
| Drain Revolving: | | | | | | | | |
| Public Works | - | 7,005 | - | - | - | - | 7,005 | 7,005 |
| Total Component Units | <u>\$ 3,840,285</u> | <u>\$ 22,845</u> | <u>\$ 3,399,052</u> | <u>\$ 931,565</u> | <u>541,689</u> | <u>(35,517)</u> | <u>7,005</u> | <u>513,177</u> |
| General Revenues and Transfers: | | | | | | | | |
| Investment Earnings | | | | | 37,589 | - | - | 37,589 |
| Gain on Equipment Disposal | | | | | 514,343 | - | - | 514,343 |
| Transfers In | | | | | - | 39,235 | - | 39,235 |
| Transfers Out | | | | | - | - | (2,950) | (2,950) |
| Total General Revenues and Transfers | | | | | <u>551,932</u> | <u>39,235</u> | <u>(2,950)</u> | <u>588,217</u> |
| Changes in Net Assets | | | | | 1,093,621 | 3,718 | 4,055 | 1,101,394 |
| Net Assets - Beginning | | | | | 10,399,236 | 4,781 | 2,569 | 10,406,586 |
| Net Assets - Ending | | | | | <u>\$ 11,492,857</u> | <u>\$ 8,499</u> | <u>\$ 6,624</u> | <u>\$ 11,507,980</u> |

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of Osceola, Michigan, conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental entities. The following is a summary of the significant accounting policies used by the County:

A – Reporting Entity:

The County of Osceola, Michigan, is a public corporation created under the Constitution and Statutes of the State of Michigan and covers an area of approximately 576 square miles with the County Seat located in Reed City. The County operates under an elected Board of Commissioners (seven members) and provides services to its 23,197 residents (per 2000 census) in many areas, including law enforcement, administration of justice, community enrichment and development, public works, health and welfare, and recreation and cultural activities.

Component Units:

In conformity with U.S. generally accepted accounting principles, the financial statements of component units have been included in the financial reporting entity either as blended component units or as discretely presented component units.

Blended Component Units

County of Osceola Building Authority – The Authority is an entity legally separate from the County. The Authority is governed by a board, appointed by the Commission and is reported as if it were part of the County's operations because its primary purpose is the procurement and management of debt financing for the County.

Discretely Presented Component Units

The component units column in the government-wide financial statements include the financial data of the other component units of the County. The following is a summary of the component units:

Osceola County Road Commission - The County Road Commission is considered part of the County reporting entity for financial reporting purposes. The Road Commission is governed by a three member board elected by the electorate of Osceola County. The Road Commission may not issue debt or levy taxes without the approval of the County Board of Commissioners. However, this component unit of Osceola County has been audited and reported separately. Complete financial statements of the individual component unit can be obtained from the following:

Osceola County Road Commission
800 S. Chestnut
Reed City, MI 49677

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

County of Osceola Economic Development Corporation – The Corporation is a legally separate municipal corporation whose primary purpose is to promote economic development in the County of Osceola. The Board of the Economic Development Corporation is appointed by the Board of Commissioners. The Corporation's annual budget is subject to the approval of the Board of Commissioners and is financially accountable to the County.

Drain Revolving – Each drainage district is a separate legal entity with the power to contract, sue, be sued, hold, manage, and dispose of real and personal property etc. The full faith and credit of the County may be given for the debt of the drainage district.

Jointly Governed Organizations

Central Michigan Community Mental Health Authority – The County participates jointly in the operation of this Authority with four other area counties. All financial operations of the Authority are recorded in Isabella County. The County appropriated \$131,358 to the Authority for the year ended December 31, 2006.

Meceola Consolidated Central Dispatch Authority – Mecosta and Osceola Counties participate jointly in the operation of the Meceola Consolidated Central Dispatch Authority. Osceola County makes no appropriations to this Authority.

Central Michigan District Health Department – The County participates jointly in the operation of this Health Department with ten other area counties. All financial operations of the Health Department are recorded in Isabella County. The County appropriated \$150,185 to the Health Department of the year ended December 31, 2006.

Mecosta Osceola Transit Authority – The Transit Authority provides public transportation to the general public in Mecosta and Osceola counties. MOTA's a separate authority and is not a component unit of either county.

B – Government-Wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C – Measurement Focus, Basis of Accounting and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Taxes Receivable – Current or Property Taxes

The County of Osceola property tax is levied on each December 1st and July 1st on the taxable valuation of property (as defined by State statutes) located in the County of Osceola as of the preceding December 31st.

Although the County of Osceola's 2005 ad valorem tax is levied and collectible on December 1, 2005 and the 2006 ad valorem tax is levied and collectible on July 1, 2006, it is the County of Osceola's policy to recognize revenue from the current tax levy in the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be paid from the delinquent tax revolving fund within one year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The 2005 taxable valuation of the County of Osceola totaled \$596,513,644, on which ad valorem taxes levied consisted of 4.2690 mills for the County operating, .7925 mills for Commission on Aging, .9984 mills for Road Patrol, .9907 mills for EMS, raising \$2,546,517, \$472,737, \$595,559, \$590,966, respectively. These amounts are recognized in the respective General and Special Revenue financial statements as tax revenue.

The July 1, 2006 taxable valuation of County of Osceola totaled \$625,999,069, on which as valorem taxes levied consisted of 4.2690 mills for the General Fund, this amount is recognized in the General Fund financial statements as revenue.

The County also raised \$1,209,515 for the Revenue Sharing Reserve Fund. This money was derived from 1/3 of the County's operating levy in 2005.

All other revenue items are considered to be available only when cash is received by the government.

The County reports the following major governmental funds:

General Fund

This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Revenue Sharing Reserve Fund

This Fund accounts for restricted funds that are limited to amounts previously reported as state revenue sharing distributed annually, which can be used to fund governmental operations.

Emergency Medical Services Fund

This Fund accounts for emergency medical services provided from charges for services, grants, Medicare and Medicaid reimbursements, and insurance reimbursements.

Building Authority Debt

This fund accounts for the repayment of building authority debt to construct road commission buildings.

The County reports the following major proprietary funds:

2005 Delinquent Tax Fund

This fund accounts for the collection of delinquent taxes.

Prior Delinquent Tax Fund

This fund accounts for the collection of prior year delinquent taxes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Additionally, the County reports the following fund types:

Agency Funds

Agency Funds are used to account for assets held by the County as an agent for individuals, private organizations, other governments, and/or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's tax collection function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for tax collections. Operating expenses for proprietary funds include the cost of sales and services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D - Assets, Liabilities, and Net Assets or Equity:

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from all funds and is allocated to each fund based on average cash balance. Deposits are recorded at cost.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st and July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items – All inventories, including the cost of supplies, are expensed when purchased. Certain insurance premiums and other expenditures are recorded as prepaid assets in the fund level and government-wide financial statements.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant, and equipment is depreciated using the straight-line method over the following useful lives:

| | |
|--------------------------|----------------|
| Buildings | 40 to 60 years |
| Building Improvements | 15 to 30 years |
| Roads | 10 to 30 years |
| Vehicles | 3 to 5 years |
| Office Equipment | 5 to 7 years |
| Computer Equipment | 3 to 7 years |
| Infrastructure – Roads | 8 to 20 years |
| Infrastructure – Bridges | 12 to 30 years |

Vested Benefits Payable – County General Employees - The County’s employment policies provide for vacation benefits to be earned in varying amounts depending on the employee’s years of service. The annual vacation benefits earned by each employee during the prior 12 months are credited to the employee on their anniversary date of hire.

Employees’ vacation and sick leave benefits are earned at varying amounts depending on various union and non-union personnel policies. Employees may accumulate and utilize vacation leave until termination of employment, at which time they will be compensated in full for the unused portion or per policy or contract.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employees accumulate or are awarded sick days based on county policy or union contract.

General non-union employees hired after September 1, 2002, and union employees are awarded a set number of sick days January 1st of each year, with the ability to carry over days into the next fiscal year per policy or union contract. The balance of unused sick time at year end is paid out to employees in January of the following year based on policy or union contract language.

Non-union employees hired prior to September 1, 2002 accumulate sick time at the rate of one day per month with a maximum accumulation of a total of 150 days. Upon separation of employment, the employee is paid 50% of the unused sick leave bank up to a maximum of seventy-five days.

Long-Term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Deferred Revenues – Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not.

Grants and Other Intergovernmental Revenues – Federal grants and assistance awards for all governmental type funds are recorded as intergovernmental revenue in accordance with the terms of the representative grants.

Interfund Transfers – During the course of normal operations, the County has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. The classification of amounts recorded as subsidies, advances, or equity contributions is determined by County management.

Use of Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information – Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles.

Budgets and Budgetary Control – The County follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Each December, after receiving input from the individual departments, the Board of Commissioners prepares a proposed operating budget for the fiscal period commencing January 1st and lapses on December 31st. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to January 1st, the budget is legally enacted through a resolution passed by the Board of Commissioners.
- d. Budgetary control is exercised at the departmental level of the General Fund. Any revisions that alter the total expenditures of any department or fund (i.e., budget amendments) require approval by the Board of Commissioners. Such amendments are made in accordance with the procedures prescribed under Public Act 621 of 1978.
- e. The budget and approved appropriations lapse at the end of the fiscal year.
- f. The County does not record encumbrances in the accounting records during the year as normal practice and, therefore, no outstanding encumbrances exist at year end.

Budgeted amounts are as originally adopted or amended by the Board of Commissioners during the year. Individual amendments were not material in relation to the original appropriations which were amended. The modified accrual basis of accounting is used for budgetary purposes.

The General Fund revenue budget was adopted on the basis of activities or programs financed by the General Fund.

Michigan Public Act 621 of 1978 requires that budgets be adopted for Governmental Funds. U.S. generally accepted accounting principles require that the financial statements present budgetary comparisons for the Governmental Fund Types for which budgets were legally adopted. The original budget adopted for the General Fund was modified throughout the year through various budget amendments.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end, the County's deposits and investments were reported in the basic financial statements in the following categories:

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total Primary Government</u> | <u>Fiduciary Funds</u> | <u>Component Units</u> |
|--|------------------------------------|-------------------------------------|-------------------------------------|----------------------------|----------------------------|
| Cash and Equivalents – Unrestricted | \$ 3,281,730 | \$ 4,476,943 | \$ 7,758,673 | \$ 919,633 | \$ 561,661 |
| Total | \$ 3,281,730 | \$ 4,476,943 | \$ 7,758,673 | \$ 919,633 | \$ 561,661 |

| | <u>Primary Government</u> | <u>Fiduciary Funds</u> | <u>Component Units</u> |
|---|-------------------------------|----------------------------|----------------------------|
| Bank Deposits (checking and savings accounts, certificates of deposit) | \$ 7,756,613 | \$ 919,633 | \$ 561,561 |
| Petty Cash and Cash on Hand | 2,060 | - | 100 |
| Total | \$ 7,758,673 | \$ 919,633 | \$ 561,661 |

| | <u>Fair Value</u> | <u>Less Than 1</u> | <u>1 – 5</u> | <u>6 – 10</u> | <u>More Than 10</u> |
|-------------------|-------------------|--------------------|--------------|---------------|---------------------|
| Investments: | | | | | |
| U.S. Treasury | \$ 595,125 | \$ 595,125 | \$ - | \$ - | \$ - |
| Money Market | 651,314 | 651,314 | - | - | - |
| Total Investments | \$ 1,246,439 | \$ 1,246,439 | \$ - | \$ - | \$ - |

Interest rate risk. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The County has no investment policy that would further limit its investment choices.

Custodial credit risk. Investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or securities that are in the possession of an outside party. Of the County's \$1,246,439 in investments all are in the name of the County. Credit quality ratings of public money funds were not available from the financial institutions or are unrated.

Custodial deposit credit risk. Custodial deposit credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned. State law does not require and the County does not have a policy for deposit custodial credit risk. As of year end, \$8,406,059 of the County's bank balance of \$8,809,059 was exposed to credit risk because it was uninsured and uncollateralized. \$0 was uninsured and collateralized by the pledging financial institution.

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)Statutory Authority:

Michigan Law (Public Act 20 of 1943 as amended) authorizes the County to deposit and invest in one or more of the following:

- a. Bond, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Banker's acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The County's deposits and investment policy are in accordance with statutory authority.

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the primary government for the current year was as follows:

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balances</u> |
|---|-------------------------------|--------------------|---------------------|----------------------------|
| Governmental Activities: | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 213,687 | \$ 17,000 | \$ - | \$ 230,687 |
| Construction in Progress | <u>622,272</u> | <u>-</u> | <u>(622,272)</u> | <u>-</u> |
| Subtotal | <u>835,959</u> | <u>17,000</u> | <u>(622,272)</u> | <u>230,687</u> |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings | 5,688,404 | 725,000 | - | 6,413,404 |
| Machinery and equipment | <u>2,736,697</u> | <u>232,753</u> | <u>(229,619)</u> | <u>2,739,831</u> |
| Subtotal | <u>8,425,101</u> | <u>957,753</u> | <u>(229,619)</u> | <u>9,153,235</u> |
| <i>Less accumulated depreciation for:</i> | | | | |
| Buildings | (3,799,152) | (109,778) | - | (3,908,930) |
| Machinery and equipment | <u>(1,835,998)</u> | <u>(278,639)</u> | <u>221,835</u> | <u>(1,892,802)</u> |
| Subtotal | <u>(5,635,150)</u> | <u>(388,417)</u> | <u>221,835</u> | <u>(5,801,732)</u> |
| Net Capital Assets Being Depreciated | <u>2,789,951</u> | <u>569,336</u> | <u>(7,784)</u> | <u>3,351,503</u> |
| Governmental Activities Capital Assets - Net of Depreciation | <u>\$ 3,625,910</u> | <u>\$ 586,336</u> | <u>\$ (630,056)</u> | <u>\$ 3,582,190</u> |
| Business-type Activities: | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 37,550 | \$ - | \$ - | \$ 37,550 |
| Subtotal | <u>37,550</u> | <u>-</u> | <u>-</u> | <u>37,550</u> |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings and improvements | 456,305 | - | - | 456,305 |
| Equipment | <u>89,096</u> | <u>-</u> | <u>(15,000)</u> | <u>74,096</u> |
| Subtotal | <u>545,401</u> | <u>-</u> | <u>(15,000)</u> | <u>530,401</u> |
| <i>Less accumulated depreciation for:</i> | | | | |
| Buildings and improvements | (278,780) | (9,741) | - | (288,521) |
| Equipment | <u>(74,838)</u> | <u>(3,658)</u> | <u>15,000</u> | <u>(63,496)</u> |
| Subtotal | <u>(353,618)</u> | <u>(13,399)</u> | <u>15,000</u> | <u>(352,017)</u> |
| Net Capital Assets Being Depreciated | <u>191,783</u> | <u>(13,399)</u> | <u>-</u> | <u>178,384</u> |
| Business-type Activities Capital Assets, Net of Depreciation | <u>\$ 229,333</u> | <u>\$ (13,399)</u> | <u>\$ -</u> | <u>\$ 215,934</u> |

NOTE 4 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

| | |
|-------------------------------|-------------------|
| Governmental Activities: | |
| Judicial | \$ 7,282 |
| General Government | 278,772 |
| Public Safety | 101,693 |
| Legislative | <u>670</u> |
| Total Governmental Activities | <u>\$ 388,417</u> |

A summary of changes in the Road Commission's capital assets are as follows:

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balances</u> |
|--|-------------------------------|---------------------|--------------------|----------------------------|
| <i>Capital assets not being depreciated:</i> | | | | |
| Land and Improvements | \$ 65,662 | \$ - | \$ - | \$ 65,662 |
| Infrastructure Land Improvements | <u>5,055,495</u> | <u>415,107</u> | <u>-</u> | <u>5,470,602</u> |
| Subtotal | <u>5,121,157</u> | <u>415,107</u> | <u>-</u> | <u>5,536,264</u> |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings | 4,656,674 | 59,474 | (138,985) | 4,577,163 |
| Road Equipment | 5,250,908 | 646,533 | (363,741) | 5,533,700 |
| Shop Equipment | 98,452 | 30,661 | (9,459) | 119,654 |
| Office Equipment | 30,615 | 1,150 | - | 31,765 |
| Engineer's Equipment | 35,519 | - | - | 35,519 |
| Depletable Assets | 226,825 | - | - | 226,825 |
| Infrastructure – Bridges | 465,534 | 134,390 | - | 599,924 |
| Infrastructure – Roads | <u>2,422,780</u> | <u>826,562</u> | <u>-</u> | <u>3,249,342</u> |
| Subtotal | <u>13,187,307</u> | <u>1,698,770</u> | <u>(512,185)</u> | <u>14,373,892</u> |
| <i>Less accumulated depreciation:</i> | | | | |
| Building | (363,674) | (178,046) | 120,901 | (420,819) |
| Road Equipment | (3,963,915) | (582,138) | 300,965 | (4,245,088) |
| Shop Equipment | (76,731) | (6,745) | 9,459 | (74,017) |
| Office Equipment | (26,474) | (1,127) | - | (27,601) |
| Engineer's Equipment | (18,929) | (4,171) | - | (23,100) |
| Depletable Assets | (197,648) | (2,594) | - | (200,242) |
| Infrastructure – Bridges | (25,307) | (15,226) | - | (40,533) |
| Infrastructure – Roads | <u>(368,780)</u> | <u>(89,656)</u> | <u>-</u> | <u>(458,436)</u> |
| Subtotal | <u>(5,041,458)</u> | <u>(879,703)</u> | <u>431,325</u> | <u>(5,489,836)</u> |
| Net Capital Assets Being Depreciated | <u>8,145,849</u> | <u>819,067</u> | <u>(80,860)</u> | <u>8,884,056</u> |
| Total Net Capital Assets | <u>\$ 13,267,006</u> | <u>\$ 1,234,174</u> | <u>\$ (80,860)</u> | <u>\$ 14,420,320</u> |

NOTE 4 - CAPITAL ASSETS (Continued)

Depreciation and depletion expense was charged to the following activities:

| | |
|-----------------------------|-------------------|
| Net Equipment Expense | |
| Direct Equipment | \$ 577,401 |
| Indirect Equipment | |
| Shop Building | 178,046 |
| Shop Equipment | 6,745 |
| Net Administrative Expenses | |
| Office Equipment | 1,127 |
| Office Vehicles | 8,908 |
| Depletion Expense | 2,594 |
| Infrastructure Depreciation | <u>104,882</u> |
| Total Depreciation Expense | <u>\$ 879,703</u> |

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The County of Osceola, Michigan reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds, proprietary funds, and fiduciary funds. Interfund transactions resulting in interfund receivables and payables are as follows:

| DUE FROM OTHER FUNDS | DUE TO OTHER FUNDS | | |
|---------------------------|--------------------|----------------------------|---------------------|
| | | Prior Delinquent Tax | |
| | General | Totals | |
| 2005 Delinquent Tax | \$ - | \$ 1,650,000 | \$ 1,650,000 |
| EMS | 34,762 | - | 34,762 |
| Nonmajor-Gov. Funds | 41,525 | - | 41,525 |
| Nonmajor-Enterprise Funds | <u>-</u> | <u>166,800</u> | <u>166,800</u> |
| Total | <u>\$ 76,287</u> | <u>\$ 1,816,800</u> | <u>\$ 1,893,087</u> |

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payment between funds are made.

| ADVANCES FROM OTHER FUNDS | ADVANCES TO OTHER FUNDS | |
|------------------------------|-------------------------|--|
| | General Fund | |
| Commission on Aging | <u>\$ 2,000</u> | |

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)**Interfund Transfers**

| | | TRANSFERS (OUT) | | | | | | | |
|--------------|-----------------------|-----------------|-------------------------|-----------|----------------------|-----------------------------|---------------------------|----------------|--------------|
| TRANSFERS IN | | General Fund | Revenue Sharing Reserve | EMS | Prior Delinquent Tax | Nonmajor Governmental Funds | Nonmajor Enterprise Funds | Component Unit | Total |
| | General Fund | \$ - | \$ 508,000 | \$ 40,000 | \$ - | \$ 20,534 | \$ 694 | \$ 2,950 | \$ 572,178 |
| | Nonmajor Governmental | 569,377 | - | 15,412 | 128,788 | 253,288 | - | - | 966,865 |
| | Nonmajor Enterprise | 10,000 | - | - | - | - | - | - | 10,000 |
| | Prior Delinquent Tax | - | - | - | - | 10,209 | 248,277 | - | 258,486 |
| | Component Units | 39,235 | - | - | - | - | - | - | 39,235 |
| | Total | \$ 618,612 | \$ 508,000 | \$ 55,412 | \$ 128,788 | \$ 284,031 | \$ 248,971 | \$ 2,950 | \$ 1,846,764 |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government.

Bond and contractual obligation activity can be summarized as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--|------------------------------|------------------|-------------------|---------------------------|------------------------------------|
| Governmental Activities: | | | | | |
| General Obligation Bonds | | | | | |
| \$1,600,000 Building Authority Bonds, Series 1998, due in annual installments increasing from \$50,000 to \$125,000 through November 1, 2017, plus interest at 5.20 % payable semi-annually. | \$ 1,125,000 | \$ - | \$ 75,000 | \$ 1,050,000 | \$ 75,000 |
| \$3,750,000 Building Authority Bonds, Series 2004, due in annual installments increasing from \$75,000 to \$225,000 through April 1, 2034, plus interest at 3% to 4.875 payable semi-annually. | 3,675,000 | - | 75,000 | 3,600,000 | 75,000 |
| \$725,000 Capital Improvement Bonds Series 2005, due in annual installments increasing from \$15,000 to \$40,000 through June 1, 2030, plus interest 3.75% to 4.85% payable semi-annually. | 725,000 | - | 15,000 | 710,000 | 20,000 |
| Total Governmental Activities | <u>\$ 5,525,000</u> | <u>\$ -</u> | <u>\$ 165,000</u> | <u>\$ 5,360,000</u> | <u>\$ 170,000</u> |

Annual debt service requirements to maturity for the above obligations are as follows:

| <u>Year End December 31</u> | <u>Governmental Activities</u> | |
|-----------------------------|--------------------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2007 | \$ 170,000 | \$ 238,078 |
| 2008 | 170,000 | 231,609 |
| 2009 | 170,000 | 225,140 |
| 2010 | 170,000 | 218,578 |
| 2011 | 195,000 | 211,809 |
| 2012-2016 | 1,090,000 | 929,338 |
| 2017-2021 | 815,000 | 701,176 |
| 2022-2026 | 850,000 | 524,917 |
| 2027-2031 | 1,080,000 | 288,400 |
| 2032-2034 | <u>650,000</u> | <u>48,750</u> |
| Total | <u>\$ 5,360,000</u> | <u>\$ 3,617,795</u> |

NOTE 6 - LONG-TERM DEBT (Continued)

A summary of vested benefits payable at December 31, 2006 is as follows:

| | |
|---------------|--------------------------|
| Vacation | \$ 121,624 |
| Sick Leave | <u>56,465</u> |
| TOTALS | <u>\$ 178,089</u> |

The long-term debt of the Road Commission is summarized as follows:

| | Balance 01/01/06 | Increases | Decreases | Balance 12/01/06 | Due Within One Year |
|---|----------------------------|--------------------|--------------------------|----------------------------|---------------------------|
| Caterpillar Track-Type Tractor, Model D4GXL, \$67,895, Capital Lease Dated July 1, 2003 | \$ 44,752 | \$ - | \$ 7,415 | \$ 37,337 | \$ 7,685 |
| Caterpillar Excavator Model 312CL \$92,095 Capital Lease Dated July 15, 2003 | 69,110 | - | 13,601 | 55,509 | 8,446 |
| Two 2003 International Trucks, \$212,000 Promissory Note Dated May 16, 2003, maturing serially through 2008 with quarterly installments of \$11,558 and an interest rate of 3.3% | 110,191 | - | 43,124 | 67,067 | 44,565 |
| Two 2004 International Trucks, \$180,000 Promissory Note Dated May 15, 2005 maturing serially through 2010 with quarterly installments of \$9,998 and an interest rate of 3.99% | 163,491 | - | 33,859 | 129,632 | 35,304 |
| Two Road Commission Facilities \$3,750,000 Capital Lease Dated April 1, 2004 maturing serially through 2034 with biannual payments ranging from \$75,000 to \$225,000 and at an interest rate ranging from 3.0% to 4.875% | 3,675,000 | - | 75,000 | 3,600,000 | 75,000 |
| Vested Employee Benefits Vacation and Sick Leave | <u>330,124</u> | <u>-</u> | <u>61,998</u> | <u>268,126</u> | <u>-</u> |
| Total | <u>\$ 4,392,668</u> | <u>\$ -</u> | <u>\$ 234,997</u> | <u>\$ 4,157,671</u> | <u>\$ 171,000</u> |

NOTE 6 - LONG-TERM DEBT (Continued)

A Caterpillar Track-Type Tractor Model D4GXL was purchased in July 2003 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$67,895, with 5 annual payments of \$9,181 and a \$30,888 balloon payment due in July 2008 at an implied interest rate of 3.99%.

| <u>Loan Amount</u> | <u>Interest Rate</u> | <u>Maturity Year</u> | <u>Outstanding 12/31/2006</u> | <u>Interest Payable if Held to Maturity</u> |
|------------------------|--------------------------|--------------------------|-----------------------------------|---|
| \$ 67,895 | 3.99% | 2007 | 7,685 | 1,495 |
| | | 2008 | <u>29,652</u> | <u>1,188</u> |
| | | Total | <u>\$ 37,337</u> | <u>\$ 2,683</u> |

A Caterpillar Excavator Model 312CL was purchased in July 2003 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase was \$92,095, with 20 quarterly payments of \$3,291 and a \$41,691 balloon payment due in July 2008 at an implied interest rate of 3.59%

| <u>Loan Amount</u> | <u>Interest Rate</u> | <u>Maturity Year</u> | <u>Outstanding 12/31/2006</u> | <u>Interest Payable if Held to Maturity</u> |
|------------------------|--------------------------|--------------------------|-----------------------------------|---|
| \$ 92,095 | 3.59% | 2007 | 8,446 | 1,423 |
| | | 2008 | <u>47,063</u> | <u>1,193</u> |
| | | Total | <u>\$ 55,509</u> | <u>\$ 2,616</u> |

Two 2003 International Trucks were purchased in May 2003 under a promissory note through Huntington National Bank. The original purchase price was \$212,000 with 20 quarterly payments of \$11,558 at an interest rate of 3.3%.

| <u>Loan Amount</u> | <u>Interest Rate</u> | <u>Maturity Year</u> | <u>Outstanding 12/31/2006</u> | <u>Interest Payable if Held to Maturity</u> |
|------------------------|--------------------------|--------------------------|-----------------------------------|---|
| \$ 212,000 | 3.3% | 2007 | 44,565 | 1,665 |
| | | 2008 | <u>22,502</u> | <u>277</u> |
| | | Total | <u>\$ 67,067</u> | <u>\$ 1,942</u> |

NOTE 6 - LONG-TERM DEBT (Continued)

Two International Tractors Model 5900I were purchased in May 2005 under a lease purchase agreement through Huntington National Bank. The original purchase price was \$180,000, with 20 quarterly payments of \$9,988 at an implied interest rate of 3.99%.

| <u>Loan Amount</u> | <u>Interest Rate</u> | <u>Maturity Year</u> | <u>Outstanding 12/31/2006</u> | <u>Interest Payable if Held to Maturity</u> |
|------------------------|--------------------------|--------------------------|-----------------------------------|---|
| \$ 180,000 | 3.99% | 2007 | 35,304 | 4,647 |
| | | 2008 | 36,734 | 3,217 |
| | | 2009 | 38,221 | 1,729 |
| | | 2010 | 19,373 | 288 |
| | | Total | <u>\$ 129,632</u> | <u>\$ 9,881</u> |

On September 1, 2004, the Osceola County Building Authority issued Building Authority Bonds, Series 2004, in the amount of \$3,750,000 for the purpose of constructing, furnishing, and equipping two new facilities for the Osceola County Road Commission. The Road Commission has entered into a 30 year capital lease agreement as lessee for the financing of these two new facilities with Osceola County who leased the facilities from the Building Authority, after which time the possession of the leased premises shall vest in the Road Commission after the bonds are retired. The Road Commission is to operate and maintain the leased premises and keep it in good condition and repair.

| <u>Loan Date</u> | <u>Loan Amount</u> | <u>Interest Rate</u> | <u>Maturity Year</u> | <u>Outstanding 12/31/2006</u> | <u>Interest Payable if Held to Maturity</u> |
|----------------------|------------------------|--------------------------|--------------------------|-----------------------------------|---|
| 05/16/05 | \$ 3,750,000 | 3.99% | 2007 | \$ 75,000 | \$ 157,681 |
| | | | 2008 | 75,000 | 155,431 |
| | | | 2009 | 75,000 | 153,181 |
| | | | 2010 | 75,000 | 150,837 |
| | | | 2011 | 75,000 | 148,306 |
| | | | 2012 – 2016 | 450,000 | 695,542 |
| | | | 2017 – 2021 | 550,000 | 596,392 |
| | | | 2022 – 2026 | 675,000 | 460,889 |
| | | | 2027 – 2031 | 900,000 | 270,366 |
| | | | 2032 – 2034 | 650,000 | 48,750 |
| | | | Total | <u>\$ 3,600,000</u> | <u>\$ 2,837,375</u> |

Vested Employee Benefits

Vacation is earned in varying amounts depending on the number of years of services of an employee and is made available to the employee at the beginning of each year, not to exceed a total accumulation of 44 days for union employees, 59 days for administrative and nonunion supervisory employees. Vacation is payable at 100% to employees when they terminate employment.

NOTE 6 - LONG-TERM DEBT (Continued)

Sick leave is accumulated at the rate of 1 day for each month of services, not to exceed a total accumulation of 125 days for all employees. Sick pay is payable at the following percentage when employees leave prior to retirement.

| | |
|-----------------------|------------|
| 10 years of service | 60 percent |
| 5-10 years of service | 40 percent |
| 0-5 years of service | 20 percent |

Sick leave is payable at 100% at retirement or death.

At December 31, 2006, the total vested vacation and sick leave benefits were \$52,539 and \$215,587, respectively.

NOTE 7 - RISK MANAGEMENT

Risk Management – The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The County joined together with other governments and created a public entity risk pool currently operating as a common risk management and insurance program. The government pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$75,000 for each insured event.

The government continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The government is unable to provide an estimate of the amounts of additional assessments.

NOTE 8 - CONTINGENT LIABILITIES

The County has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the County. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the County at December 31, 2006.

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMSDescription of Plan and Plan Assets

The County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplies by the sum of 2.0 percent times the final compensation (FAC). The most recent period of which actuarial data was available was for year ended December 31, 2005.

MERS was organized pursuant to Section 12A of Act #156, Public Acts of 1851 (MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the County's competitive bargaining unit and personnel policy, which require employees to contribute to the plan. The County is required to contribute at an actuarially determined rate.

Annual Pension Cost

During the year ended December 31, 2006, the County's contributions totaling \$403,694 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2004. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases. The unfunded actuarial liability is amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)

Three year trend information as of December 31, follows:

| | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|--|--------------|--------------|--------------|
| Actuarial Value of Assets | \$ 6,835,402 | \$ 7,428,543 | \$ 8,050,362 |
| Actuarial Accrued Liability | 8,056,141 | 8,510,149 | 9,192,506 |
| Unfunded AAL | 1,220,739 | 1,081,606 | 1,142,144 |
| Funded Ratio | 85% | 87% | 88% |
| Covered Payroll | 3,387,364 | 3,547,048 | 3,735,851 |
| UAAL as a Percentage of Covered Payroll | 36% | 30% | 31% |

| <u>Year Ended Dec 31</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|----------------------------------|--|--|---------------------------------------|
| 2004 | \$ 357,423 | 100% | 0 |
| 2005 | 368,127 | 100% | 0 |
| 2006 | 403,694 | 100% | 0 |

ROAD COMMISSION
Description of Plan and Plan Assets

The Osceola County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, and service retirement allowance, disability retirement allowance, nonduty-connected to death, and post-retirement adjustments to plan members and their beneficiaries. The service requirement for general and administration is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final compensation (FAC), with a maximum benefit of 80% FAC for the general and administrative employees. The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2005.

MERS was organized pursuant to Section 12A of Act #156, Public Acts of 1851 (MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Public Act No. 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (Continued)Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining units. The employee contribution for the year ending December 31, 2005 was 1.5% of gross wages for general employees and 1.5% of gross wages for administrative employees. The Road Commission was required to contribute at an actuarially determined rate; the current rate was 9.23% and 12.44% of annual compensation at December 31, 2003 for the general and administrative groups, respectively, of annual compensation.

Annual Pension Cost

For the year ended December 31, 2005, the Road Commission's annual pension cost was \$104,354 based on the actuarially determined rate for 2003. The employees contributed \$16,847 in accordance with the union and personnel agreements. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for this projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

| | <u>2003</u> | <u>2004</u> | <u>2005</u> |
|--|--------------|--------------|--------------|
| Actuarial Value of Assets | \$ 4,767,569 | \$ 4,962,306 | \$ 5,115,949 |
| Actuarial Accrued Liability | 5,379,367 | 5,761,285 | 5,951,945 |
| Unfunded AAL | 611,798 | 798,979 | 835,996 |
| Funded Ratio | 89% | 86% | 86% |
| Covered Payroll | 1,136,216 | 1,065,505 | 1,123,147 |
| UAAL as a Percentage of Covered Payroll | 54% | 75% | 74% |

| <u>Year Ended Dec 31</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|----------------------------------|--|--|---------------------------------------|
| 2003 | \$ 104,017 | 100% | 0 |
| 2004 | 108,321 | 100% | 0 |
| 2005 | 104,354 | 100% | 0 |

NOTE 10 - POST EMPLOYMENT BENEFITS

Osceola County Road Commission provides post-employment health care benefits, in accordance with the labor contract and personnel policy to all employees who retire from the Road Commission. The employer will pay all costs for Blue Cross/Blue Shield, including spouse, from the time the retiree is 62 years old until 65 years of age. After age 65, retirees must reimburse the employer for the cost of insurance. Employees that retire before age 62 may remain in the health group if they reimburse the employer for the cost of insurance.

Currently, five retirees meet those eligibility requirements. Expenditures for post-employment health care benefits recognized when insurance premiums are paid. Premiums paid by the Road Commission in 2006 totaled \$34,130, while reimbursements from retirees totaled \$13,880. The net cost to the Road Commission was \$20,250. The reason for the negative cost is retirees are allowed to pay early and the reimbursements are recognized when received while the expenditures are recognized as the insurance premiums become due.

NOTE 11- LEASES

Capital Leases – The County leases an ambulance under capital lease with yearly lease payment of \$30,721, including an interest rate of 2.95%. The County also leases a Ford Freestar vehicle for the sheriff's department, with a yearly lease payment of \$9,271, including an interest rate of 5.60%. These leases qualify as capital leases for accounting purposes and therefore has been recorded at the present value of future minimum lease payments as of the inception date. The future minimum lease obligations and the net present values are as follows:

| | |
|--|------------------|
| 2007 | \$ 16,289 |
| 2008 | <u>9,271</u> |
| Total minimum lease payments | 25,560 |
| Less amount representing interest | <u>(1,058)</u> |
| Present value of minimum lease payment | <u>\$ 24,502</u> |

NOTE 14 - NET ASSETS RESTRICTED/FUND EQUITY RESERVES

Net assets restrictions/fund equity reserve can be described as follows:

| <u>Fund</u> | <u>Description</u> | <u>Amount</u> |
|-------------------------|--------------------|---------------------|
| Friend of the Court | Fund Purposes | \$ 36,097 |
| Public Improvement | Public Improvement | 2,291 |
| Housing Grant | Public Housing | 21,983 |
| Revenue Sharing Reserve | Revenue Sharing | <u>2,373,435</u> |
| | | <u>\$ 2,433,806</u> |

NOTE 15 - DESIGNATED FUND BALANCE

The various governing boards of the County have the power to designate or set aside, all or a portion of unreserved fund balance for specific purposes. The following is a summary of designated fund balance of December 31, 2006:

| <u>Fund</u> | <u>Description</u> | <u>Amount</u> |
|--------------|--------------------|---------------|
| General Fund | Advances | \$ 2,000 |

Required Supplementary Information

County of Osceola, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund Year Ended December 31, 2006

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|--------------------------|------------------|--------------|----------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Taxes | \$ 3,644,682 | \$ 4,002,734 | \$ 4,302,258 | \$ 299,524 |
| Licenses & Permits | 50,100 | 35,553 | 32,745 | (2,808) |
| Federal Sources | 350,920 | 267,868 | 222,914 | (44,954) |
| State Sources | 340,238 | 342,668 | 319,107 | (23,561) |
| Local Sources | 10,000 | 15,000 | 17,834 | 2,834 |
| Charges for Services | 852,709 | 896,685 | 938,040 | 41,355 |
| Refunds & Reimbursements | 325,042 | 348,993 | 389,556 | 40,563 |
| Interest & Rentals | 119,350 | 122,352 | 171,850 | 49,498 |
| Other Revenue | 123,850 | 141,296 | 186,003 | 44,707 |
| TOTAL REVENUES | 5,816,891 | 6,173,149 | 6,580,307 | 407,158 |
| EXPENDITURES: | | | | |
| Legislative: | | | | |
| Board of Commissioners | 75,600 | 75,600 | 67,075 | 8,525 |
| Judicial: | | | | |
| Circuit Court | 144,870 | 147,770 | 115,651 | 32,119 |
| District Court | 249,551 | 259,551 | 246,938 | 12,613 |
| Jury Commission | 3,877 | 3,877 | 2,433 | 1,444 |
| Juvenile Division | 258,044 | 251,044 | 214,665 | 36,379 |
| Adult Probation | 2,200 | 2,200 | 1,898 | 302 |
| Probate Court | 90,332 | 92,057 | 90,364 | 1,693 |
| Public Defender | 178,756 | 193,656 | 184,477 | 9,179 |
| Total Judicial | 927,630 | 950,155 | 856,426 | 93,729 |
| General Government: | | | | |
| County Coordinator | 81,399 | 82,819 | 75,313 | 7,506 |
| Professional | 44,000 | 44,000 | 23,000 | 21,000 |
| Elections | 65,800 | 85,971 | 59,113 | 26,858 |
| County Clerk | 229,263 | 230,773 | 225,503 | 5,270 |
| Equalization | 170,170 | 169,115 | 164,629 | 4,486 |
| Prosecuting Attorney | 283,595 | 285,610 | 234,123 | 51,487 |
| Crime Victims | 50,163 | 50,163 | 47,033 | 3,130 |
| Register of Deeds | 203,672 | 203,672 | 196,901 | 6,771 |
| Treasurer | 205,802 | 221,604 | 216,679 | 4,925 |
| Cooperative Extension | 157,750 | 157,065 | 146,254 | 10,811 |
| Buildings & Grounds | 154,650 | 155,170 | 151,229 | 3,941 |
| Human Services Building | 19,936 | 25,111 | 25,000 | 111 |
| Drain Commission | 14,858 | 18,238 | 17,240 | 998 |
| Sedimentation | 14,547 | - | - | - |
| General | 370,737 | 421,546 | 373,872 | 47,674 |
| Total General Government | 2,066,342 | 2,150,857 | 1,955,889 | 194,968 |

County of Osceola, Michigan

Required Supplementary Information Budgetary Comparison Schedule General Fund Year Ended December 31, 2006

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|--|------------------|-------------|----------------|---|
| | Original | Final | | |
| Public Safety: | | | | |
| Sheriff | 1,105,901 | 1,277,345 | 1,277,033 | 312 |
| Marine | 14,400 | 18,337 | 14,193 | 4,144 |
| Snowmobile | 14,361 | 14,361 | 6,741 | 7,620 |
| Road Patrol | 63,804 | 69,484 | 58,478 | 11,006 |
| Jail | 1,059,586 | 1,104,586 | 1,087,348 | 17,238 |
| Building Inspector/Other | 600 | 600 | 119 | 481 |
| Planning Department | 4,835 | 4,835 | 1,294 | 3,541 |
| Plat Board | 75 | 75 | - | 75 |
| Emergency Services | 168,076 | - | - | - |
| Animal Control | 85,356 | 85,356 | 83,999 | 1,357 |
| 911 | 80,000 | 106,775 | 106,775 | - |
| Total Public Safety | 2,596,994 | 2,681,754 | 2,635,980 | 45,774 |
| Public Works: | | | | |
| Solid Waste | 4,099 | 4,099 | 129 | 3,970 |
| Health & Welfare: | | | | |
| Medical Examiner | 48,864 | 60,279 | 58,337 | 1,942 |
| Contagious Diseases | 750 | 750 | 827 | (77) |
| Veteran's Burial | 12,650 | 16,150 | 16,050 | 100 |
| Total Health & Welfare | 62,264 | 77,179 | 75,214 | 1,965 |
| Other Expenditures: | | | | |
| Insurance & Bonds | 573,003 | 595,689 | 503,749 | 91,940 |
| Employee Benefits | 236,000 | 87,765 | 57,007 | 30,758 |
| Appropriations | 310,539 | 311,891 | 306,461 | 5,430 |
| Total Other Expenditures | 1,119,542 | 995,345 | 867,217 | 128,128 |
| TOTAL EXPENDITURES | 6,852,471 | 6,934,989 | 6,457,930 | 477,059 |
| EXCESS OF REVENUES OVER EXPENDITURES | (1,035,580) | (761,840) | 122,377 | 884,217 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating Transfers In | 1,364,541 | 1,367,879 | 572,178 | (795,701) |
| Operating Transfers Out | (346,021) | (623,149) | (618,612) | 4,537 |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | \$ (17,060) | \$ (17,110) | 75,943 | \$ 93,053 |
| FUND BALANCE, JANUARY 1 | | | 1,355,511 | |
| FUND BALANCE, DECEMBER 31 | | | \$ 1,431,454 | |

County of Osceola, Michigan

Required Supplementary Information Budgetary Comparison Schedule Revenue Sharing Reserve Fund Year Ended December 31, 2006

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|--|------------------|--------------|----------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Taxes | \$ 1,157,795 | \$ 1,157,795 | \$ 1,157,795 | \$ - |
| Interest & Rentals | 7,500 | 7,500 | 47,755 | 40,255 |
| TOTAL REVENUES | 1,165,295 | 1,165,295 | 1,205,550 | 40,255 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating Transfer Out | (508,000) | (508,000) | (508,000) | - |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | \$ (508,000) | \$ (508,000) | 697,550 | \$ 682,791 |
| FUND BALANCE, JANUARY 1 | | | 1,675,885 | |
| FUND BALANCE, DECEMBER 31 | | | \$ 2,373,435 | |

County of Osceola, Michigan

Required Supplementary Information Budgetary Comparison Schedule EMS Fund Year Ended December 31, 2006

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|--|------------------|-------------|----------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Taxes | \$ 569,416 | \$ 569,416 | \$ 558,515 | \$ (10,901) |
| State Sources | - | 12,450 | 12,620 | 170 |
| Charges for Services | 712,226 | 728,000 | 773,747 | 45,747 |
| Interest & Rentals | - | - | 16,075 | 16,075 |
| Other Revenue | 1,728 | 13,728 | 11,591 | (2,137) |
| TOTAL REVENUES | 1,283,370 | 1,323,594 | 1,372,548 | 48,954 |
| EXPENDITURES: | | | | |
| Health & Welfare | 1,234,604 | 1,276,828 | 1,235,261 | 41,567 |
| Capital Outlay | 41,954 | 39,954 | 22,161 | 17,793 |
| TOTAL EXPENDITURES | 1,276,558 | 1,316,782 | 1,257,422 | 59,360 |
| EXCESS OF REVENUES OVER EXPENDITURES | 6,812 | 6,812 | 115,126 | 108,314 |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating Transfers Out | (15,412) | (55,412) | (55,412) | - |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | \$ (8,600) | \$ (48,600) | 59,714 | \$ 108,314 |
| FUND BALANCE, JANUARY 1 | | | 135,513 | |
| FUND BALANCE, DECEMBER 31 | | | \$ 195,227 | |

Other Supplementary Information

County of Osceola, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2006

| | Special Revenue Funds | | | | | | | | |
|--|---------------------------------|--------------------|------------------------|--------------------------|---------------------------|-----------------------|------------------------|------------------------------------|-------------------------|
| | Michigan Justice Training | Friend of Court | Scrap Tire Clean Up | Community Corrections | Survey Remonumentation | Public Improvement | Building Inspection | Register of Deeds Automation | Budget Stabilization |
| ASSETS: | | | | | | | | | |
| Cash & Equivalents - Unrestricted | \$ 10,893 | \$ 200,995 | \$ - | \$ 197 | \$ - | \$ - | \$ 75,020 | \$ 61,012 | \$ 50,000 |
| Receivables: | | | | | | | | | |
| Accounts | - | - | - | 6,325 | 38,108 | 9,923 | - | - | - |
| Taxes | - | - | - | - | - | - | - | - | - |
| Due from Governmental Units | - | 48,962 | - | - | - | - | - | - | - |
| TOTAL ASSETS | <u>\$ 10,893</u> | <u>\$ 249,957</u> | <u>\$ -</u> | <u>\$ 6,522</u> | <u>\$ 38,108</u> | <u>\$ 9,923</u> | <u>\$ 75,020</u> | <u>\$ 61,012</u> | <u>\$ 50,000</u> |
| LIABILITIES: | | | | | | | | | |
| Current Liabilities: | | | | | | | | | |
| Due to Other Funds | \$ - | \$ - | \$ - | \$ 3,417 | \$ 38,108 | \$ - | \$ - | \$ - | \$ - |
| Accounts Payable | - | 9,769 | - | 245 | - | 7,632 | 691 | - | - |
| Accrued Liabilities | - | 6,637 | - | 1,353 | - | - | 2,811 | - | - |
| Advances to Other Funds | - | - | - | - | - | - | - | - | - |
| Deferred Revenue | - | - | - | - | - | - | - | - | - |
| TOTAL LIABILITIES | <u>-</u> | <u>16,406</u> | <u>-</u> | <u>5,015</u> | <u>38,108</u> | <u>7,632</u> | <u>3,502</u> | <u>-</u> | <u>-</u> |
| FUND BALANCES: | | | | | | | | | |
| Reserved | - | 36,097 | - | - | - | 2,291 | - | - | - |
| Unreserved | | | | | | | | | |
| Undesignated | 10,893 | 197,454 | - | 1,507 | - | - | 71,518 | 61,012 | 50,000 |
| TOTAL FUND BALANCES | <u>10,893</u> | <u>233,551</u> | <u>-</u> | <u>1,507</u> | <u>-</u> | <u>2,291</u> | <u>71,518</u> | <u>61,012</u> | <u>50,000</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 10,893</u> | <u>\$ 249,957</u> | <u>\$ -</u> | <u>\$ 6,522</u> | <u>\$ 38,108</u> | <u>\$ 9,923</u> | <u>\$ 75,020</u> | <u>\$ 61,012</u> | <u>\$ 50,000</u> |

County of Osceola, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2006

| | Special Revenue Funds | | | | | | | | |
|--|-------------------------|------------------|---------------------|---------------------|--------------------|--------------------|-----------------|------------------------|-----------------------------------|
| | Disaster Contingency | Civil Defense | Officer Training | Drug Enforcement | Drug Operations | Dare Operations | Law Library | Commission On Aging | Commission On Aging Millage |
| ASSETS: | | | | | | | | | |
| Cash & Equivalents - Unrestricted | \$ 1,923 | \$ 3,582 | \$ 15,272 | \$ 12,628 | \$ 58,231 | \$ 10,510 | \$ 1,925 | \$ 156,353 | \$ 140,667 |
| Receivables: | | | | | | | | | |
| Accounts | - | 22,000 | - | - | 145 | - | - | 16,898 | - |
| Taxes | - | - | - | - | - | - | - | - | 460,546 |
| Due from Governmental Units | - | - | - | - | - | - | - | - | - |
| TOTAL ASSETS | <u>\$ 1,923</u> | <u>\$ 25,582</u> | <u>\$ 15,272</u> | <u>\$ 12,628</u> | <u>\$ 58,376</u> | <u>\$ 10,510</u> | <u>\$ 1,925</u> | <u>\$ 173,251</u> | <u>\$ 601,213</u> |
| LIABILITIES: | | | | | | | | | |
| Current Liabilities: | | | | | | | | | |
| Due to Other Funds | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Accounts Payable | - | 11,256 | - | - | - | - | 726 | 1,526 | 2,173 |
| Accrued Liabilities | - | 2,019 | - | - | - | - | - | 7,406 | 11,158 |
| Advances to Other Funds | - | - | - | - | - | - | - | 2,000 | - |
| Deferred Revenue | - | - | - | - | - | - | - | - | 460,546 |
| TOTAL LIABILITIES | <u>-</u> | <u>13,275</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>726</u> | <u>10,932</u> | <u>473,877</u> |
| FUND BALANCES: | | | | | | | | | |
| Reserved | - | - | - | - | - | - | - | - | - |
| Unreserved | | | | | | | | | |
| Undesignated | 1,923 | 12,307 | 15,272 | 12,628 | 58,376 | 10,510 | 1,199 | 162,319 | 127,336 |
| TOTAL FUND BALANCES | <u>1,923</u> | <u>12,307</u> | <u>15,272</u> | <u>12,628</u> | <u>58,376</u> | <u>10,510</u> | <u>1,199</u> | <u>162,319</u> | <u>127,336</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 1,923</u> | <u>\$ 25,582</u> | <u>\$ 15,272</u> | <u>\$ 12,628</u> | <u>\$ 58,376</u> | <u>\$ 10,510</u> | <u>\$ 1,925</u> | <u>\$ 173,251</u> | <u>\$ 601,213</u> |

County of Osceola, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2006

| | Special Revenue Funds | | | | | Debt Service Funds | | | |
|--|-----------------------|-------------------------------|------------------|--------------------|----------------------------|--------------------|----------------------------|---------------------------------------|-------------------------------------|
| | Meals on Wheels | Dept. of Human Services | Child Care | Veteran's Trust | Equipment & Maintenance | Housing Grant | Senior Meals Program | Co Cap Improvement Debt Service | Building Authority Prin./Int. |
| ASSETS: | | | | | | | | | |
| Cash & Equivalents - Unrestricted | \$ 5,258 | \$ - | \$ 40,697 | \$ 342 | \$ 30,793 | \$ 21,983 | \$ 5,230 | \$ - | \$ - |
| Receivables: | | | | | | | | | |
| Accounts | 16,682 | - | - | - | 2,941 | - | - | - | - |
| Taxes | - | - | - | - | - | - | - | - | - |
| Due from Governmental Units | - | - | - | - | - | - | - | - | - |
| TOTAL ASSETS | <u>\$ 21,940</u> | <u>\$ -</u> | <u>\$ 40,697</u> | <u>\$ 342</u> | <u>\$ 33,734</u> | <u>\$ 21,983</u> | <u>\$ 5,230</u> | <u>\$ -</u> | <u>\$ -</u> |
| LIABILITIES: | | | | | | | | | |
| Current Liabilities: | | | | | | | | | |
| Due to Other Funds | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Accounts Payable | 231 | - | 18,406 | - | 407 | - | - | - | - |
| Accrued Liabilities | 2,721 | - | 1,163 | - | - | - | - | - | - |
| Advances to Other Funds | - | - | - | - | - | - | - | - | - |
| Deferred Revenue | - | - | - | - | - | - | - | - | - |
| TOTAL LIABILITIES | <u>2,952</u> | <u>-</u> | <u>19,569</u> | <u>-</u> | <u>407</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| FUND BALANCES: | | | | | | | | | |
| Reserved | - | - | - | - | - | 21,983 | - | - | - |
| Unreserved | | | | | | | | | |
| Undesignated | 18,988 | - | 21,128 | 342 | 33,327 | - | 5,230 | - | - |
| TOTAL FUND BALANCES | <u>18,988</u> | <u>-</u> | <u>21,128</u> | <u>342</u> | <u>33,327</u> | <u>21,983</u> | <u>5,230</u> | <u>-</u> | <u>-</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 21,940</u> | <u>\$ -</u> | <u>\$ 40,697</u> | <u>\$ 342</u> | <u>\$ 33,734</u> | <u>\$ 21,983</u> | <u>\$ 5,230</u> | <u>\$ -</u> | <u>\$ -</u> |

County of Osceola, Michigan

Combining Balance Sheet Nonmajor Governmental Funds December 31, 2006

| | Capital Project Funds | | | |
|--|------------------------------------|-------------------------|--------------------|----------------------------|
| | Co Cap Improve Bond Proceeds | District Court | Construction | Totals |
| ASSETS: | | | | |
| Cash & Equivalents - Unrestricted | \$ 2,532 | \$ 28,984 | \$ - | \$ 935,027 |
| Receivables: | | | | |
| Accounts | - | 145 | - | 113,167 |
| Taxes | - | - | - | 460,546 |
| Due from Governmental Units | - | - | - | 48,962 |
| TOTAL ASSETS | <u><u>\$ 2,532</u></u> | <u><u>\$ 29,129</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 1,557,702</u></u> |
| LIABILITIES: | | | | |
| Current Liabilities: | | | | |
| Due to Other Funds | \$ - | \$ - | \$ - | \$ 41,525 |
| Accounts Payable | - | - | - | 53,062 |
| Accrued Liabilities | - | - | - | 35,268 |
| Advances to Other Funds | - | - | - | 2,000 |
| Deferred Revenue | - | - | - | 460,546 |
| TOTAL LIABILITIES | <u>-</u> | <u>-</u> | <u>-</u> | <u>592,401</u> |
| FUND BALANCES: | | | | |
| Reserved | - | - | - | 60,371 |
| Unreserved | | | | |
| Undesignated | 2,532 | 29,129 | - | 904,930 |
| TOTAL FUND BALANCES | <u>2,532</u> | <u>29,129</u> | <u>-</u> | <u>965,301</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u><u>\$ 2,532</u></u> | <u><u>\$ 29,129</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 1,557,702</u></u> |

County of Osceola, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds Year Ended December 31, 2006

| | Special Revenue Funds | | | | | | | | |
|--|---------------------------------|--------------------|------------------------|--------------------------|---------------------------|-----------------------|------------------------|------------------------------------|-------------------------|
| | Michigan Justice Training | Friend of Court | Scrap Tire Clean Up | Community Corrections | Survey Remonumentation | Public Improvement | Building Inspection | Register of Deeds Automation | Budget Stabilization |
| REVENUES: | | | | | | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Licenses and Permits | - | - | - | - | - | - | 12,223 | - | - |
| Federal Sources | - | 241,310 | - | - | - | - | - | - | - |
| State Sources | 4,754 | - | 723,188 | 44,348 | 63,514 | 12,891 | - | - | - |
| Local Sources | - | - | - | - | - | - | - | - | - |
| Charges for Services | - | 42,751 | - | - | - | - | 171,882 | - | - |
| Refunds & Reimbursements | - | - | - | 7,883 | - | - | - | - | - |
| Interest & Rentals | - | - | - | - | - | - | 5,532 | 2,804 | - |
| Other Revenue | - | - | - | - | - | - | - | - | - |
| TOTAL REVENUES | 4,754 | 284,061 | 723,188 | 52,231 | 63,514 | 12,891 | 189,637 | 2,804 | - |
| EXPENDITURES: | | | | | | | | | |
| Judicial | - | 328,442 | - | - | 71,514 | - | - | - | - |
| Public Safety | 4,512 | - | - | 88,095 | - | - | 231,241 | - | - |
| Health & Welfare | - | - | 723,198 | - | - | - | - | - | - |
| Capital Outlay | - | - | - | - | - | 279,421 | - | - | - |
| Debt Service | - | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - |
| TOTAL EXPENDITURES | 4,512 | 328,442 | 723,198 | 88,095 | 71,514 | 279,421 | 231,241 | - | - |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 242 | (44,381) | (10) | (35,864) | (8,000) | (266,530) | (41,604) | 2,804 | - |
| OTHER FINANCING SOURCES (USES): | | | | | | | | | |
| Operating Transfers In | - | 51,647 | 10 | 26,564 | 8,000 | 323,519 | - | 32,060 | - |
| Operating Transfers Out | - | - | - | - | - | (175,096) | - | (15,000) | - |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | 242 | 7,266 | - | (9,300) | - | (118,107) | (41,604) | 19,864 | - |
| FUND BALANCES, January 1 | 10,651 | 226,285 | - | 10,807 | - | 120,398 | 113,122 | 41,148 | 50,000 |
| FUND BALANCES, December 31 | \$ 10,893 | \$ 233,551 | \$ - | \$ 1,507 | \$ - | \$ 2,291 | \$ 71,518 | \$ 61,012 | \$ 50,000 |

County of Osceola, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds Year Ended December 31, 2006

| | Special Revenue Funds | | | | | | | |
|---|-------------------------|------------------|---------------------|---------------------|--------------------|--------------------|-----------------|-----------------------------------|
| | Disaster Contingency | Civil Defense | Officer Training | Drug Enforcement | Drug Operations | Dare Operations | Law Library | Commission On Aging Millage |
| REVENUES: | | | | | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 448,571 |
| Licenses and Permits | - | - | - | - | - | - | - | - |
| Federal Sources | - | 178,900 | - | - | - | - | 113,249 | - |
| State Sources | - | - | 10,058 | - | - | 7,795 | - | 16,500 |
| Local Sources | - | - | - | - | - | 50 | - | - |
| Charges for Services | - | - | - | - | - | - | - | - |
| Refunds & Reimbursements | - | - | - | - | 201 | - | - | - |
| Interest & Rentals | - | - | - | - | - | - | - | 20,137 |
| Other Revenue | - | - | - | 3,670 | 10,990 | - | 3,500 | 8,498 |
| TOTAL REVENUES | - | 178,900 | 10,058 | 3,670 | 11,191 | 7,845 | 3,500 | 493,706 |
| EXPENDITURES: | | | | | | | | |
| Judicial | - | - | - | - | - | - | 14,018 | - |
| Public Safety | - | 240,141 | 10,497 | - | 2,585 | 9,382 | - | - |
| Health & Welfare | - | - | - | - | - | - | 166,885 | 468,128 |
| Capital Outlay | - | - | - | - | - | - | - | - |
| Debt Service | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - |
| TOTAL EXPENDITURES | - | 240,141 | 10,497 | - | 2,585 | 9,382 | 14,018 | 468,128 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | - | (61,241) | (439) | 3,670 | 8,606 | (1,537) | (10,518) | 25,578 |
| OTHER FINANCING SOURCES (USES): | | | | | | | | |
| Operating Transfers In | - | 73,548 | - | - | 1,670 | - | 10,500 | - |
| Operating Transfers Out | - | - | - | (2,840) | - | - | - | (27,250) |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | - | 12,307 | (439) | 830 | 10,276 | (1,537) | (18) | (1,672) |
| FUND BALANCES, January 1 | 1,923 | - | 15,711 | 11,798 | 48,100 | 12,047 | 1,217 | 129,008 |
| FUND BALANCES, December 31 | \$ 1,923 | \$ 12,307 | \$ 15,272 | \$ 12,628 | \$ 58,376 | \$ 10,510 | \$ 1,199 | \$ 127,336 |

County of Osceola, Michigan

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance Nonmajor Governmental Funds Year Ended December 31, 2006

| | Special Revenue Funds | | | | | | Debt Service Funds | | |
|--|-----------------------|-------------------------------|---------------|--------------------|----------------------------|------------------|----------------------------|---------------------------------------|-------------------------------------|
| | Meals on Wheels | Dept. of Human Services | Child Care | Veteran's Trust | Equipment & Maintenance | Housing Grant | Senior Meals Program | Co Cap Improvement Debt Service | Building Authority Prin./Int. |
| REVENUES: | | | | | | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Licenses and Permits | - | - | - | - | - | - | - | - | - |
| Federal Sources | 126,021 | - | - | - | - | 110,949 | - | - | - |
| State Sources | 37,686 | - | 131,136 | 2,391 | 17,836 | - | 41,366 | - | - |
| Local Sources | 14,110 | - | - | - | - | - | - | - | - |
| Charges for Services | - | - | - | - | - | - | - | - | - |
| Refunds & Reimbursements | - | - | 19,776 | - | - | - | - | - | - |
| Interest & Rentals | 1 | - | - | - | - | - | 3 | - | - |
| Other Revenue | 39,344 | - | - | - | - | 8,642 | - | - | - |
| TOTAL REVENUES | 217,162 | - | 150,912 | 2,391 | 17,836 | 119,591 | 41,369 | - | - |
| EXPENDITURES: | | | | | | | | | |
| Judicial | - | - | - | - | - | - | - | - | - |
| Public Safety | - | - | - | - | - | - | - | - | - |
| Health & Welfare | 234,407 | 23,863 | 383,283 | 2,728 | - | 126,097 | 37,969 | - | - |
| Capital Outlay | - | - | - | - | 20,978 | - | - | - | - |
| Debt Service | - | - | - | - | - | - | - | 46,309 | 128,438 |
| Other | - | - | - | - | - | - | - | - | 350 |
| TOTAL EXPENDITURES | 234,407 | 23,863 | 383,283 | 2,728 | 20,978 | 126,097 | 37,969 | 46,309 | 128,788 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (17,245) | (23,863) | (232,371) | (337) | (3,142) | (6,506) | 3,400 | (46,309) | (128,788) |
| OTHER FINANCING SOURCES (USES): | | | | | | | | | |
| Operating Transfers In | 27,250 | 12,000 | 225,000 | - | - | - | - | 46,309 | 128,788 |
| Operating Transfers Out | - | (4,365) | - | - | (34,271) | - | - | - | - |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | 10,005 | (16,228) | (7,371) | (337) | (37,413) | (6,506) | 3,400 | - | - |
| FUND BALANCES, January 1 | 8,983 | 16,228 | 28,499 | 679 | 70,740 | 28,489 | 1,830 | - | - |
| FUND BALANCES, December 31 | \$ 18,988 | \$ - | \$ 21,128 | \$ 342 | \$ 33,327 | \$ 21,983 | \$ 5,230 | \$ - | \$ - |

Combining Statement of Revenues, Expenditures,
and Changes in Fund Balance
Nonmajor Governmental Funds
Year Ended December 31, 2006

| | Capital Project Funds | | | |
|--|------------------------------------|-------------------|---------------|------------------|
| | Co Cap Improve Bond Proceeds | District Court | Construction | Totals |
| REVENUES: | | | | |
| Taxes | \$ - | \$ - | \$ - | \$ 448,571 |
| Licenses and Permits | - | - | - | 12,223 |
| Federal Sources | - | - | - | 770,429 |
| State Sources | - | - | - | 1,200,877 |
| Local Sources | - | - | - | 14,160 |
| Charges for Services | 2,000 | - | 75,910 | 292,543 |
| Refunds & Reimbursements | 131 | - | - | 27,991 |
| Interest & Rentals | - | - | 53 | 28,530 |
| Other Revenue | - | 11,068 | - | 86,408 |
| TOTAL REVENUES | 2,131 | 11,068 | 75,963 | 2,881,732 |
| EXPENDITURES: | | | | |
| Judicial | - | - | - | 413,974 |
| Public Safety | - | - | - | 586,453 |
| Health & Welfare | - | - | - | 2,166,558 |
| Capital Outlay | 78,538 | - | 65,754 | 444,691 |
| Debt Service | - | - | - | 174,747 |
| Other | 995 | 197 | - | 1,542 |
| TOTAL EXPENDITURES | 79,533 | 197 | 65,754 | 3,787,965 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (77,402) | 10,871 | 10,209 | (906,233) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Operating Transfers In | - | - | - | 966,865 |
| Operating Transfers Out | - | (15,000) | (10,209) | (284,031) |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | (77,402) | (4,129) | - | (223,399) |
| FUND BALANCES, January 1 | 79,934 | 33,258 | - | 1,188,700 |
| FUND BALANCES, December 31 | \$ 2,532 | \$ 29,129 | \$ - | \$ 965,301 |

County of Osceola, Michigan

Combining Statement of Net Assets Nonmajor Enterprise Funds December 31, 2006

| | Park & Recreation | Commissary | Vested Benefits | Tax Revolving Admin | Delinquent Tax Prop Proceeds | 2003 Delinquent Tax | 2004 Delinquent Tax | Totals |
|--|----------------------|-----------------|--------------------|---------------------------|------------------------------------|---------------------------|---------------------------|-------------------|
| ASSETS: | | | | | | | | |
| Cash & Equivalents -Unrestricted | \$ 112,371 | \$ 9,793 | \$ 124,870 | \$ 520 | \$ 4,275 | \$ - | \$ 324,076 | \$ 575,905 |
| Receivables: | | | | | | | | |
| Taxes | - | - | - | - | - | - | 77,537 | 77,537 |
| Interest | - | - | - | - | - | - | 25,587 | 25,587 |
| Capital Assets - net | 215,934 | - | - | - | - | - | - | 215,934 |
| TOTAL ASSETS | \$ 328,305 | \$ 9,793 | \$ 124,870 | \$ 520 | \$ 4,275 | \$ - | \$ 427,200 | \$ 894,963 |
| LIABILITIES: | | | | | | | | |
| Current Liabilities: | | | | | | | | |
| Due to Other Funds | \$ 16,800 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 150,000 | \$ 166,800 |
| Accounts Payable | 344 | - | - | - | - | - | - | 344 |
| Accrued Liabilities | 856 | - | - | - | - | - | - | 856 |
| TOTAL LIABILITIES | 18,000 | - | - | - | - | - | 150,000 | 168,000 |
| NET ASSETS: | | | | | | | | |
| Invested in Capital Assets (net of related debt) | 215,934 | - | - | - | - | - | - | 215,934 |
| Unrestricted | 94,371 | 9,793 | 124,870 | 520 | 4,275 | - | 277,200 | 511,029 |
| TOTAL NET ASSETS | 310,305 | 9,793 | 124,870 | 520 | 4,275 | - | 277,200 | 726,963 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 328,305 | \$ 9,793 | \$ 124,870 | \$ 520 | \$ 4,275 | \$ - | \$ 427,200 | \$ 894,963 |

County of Osceola, Michigan

Combining Statement of Revenues, Expenses, and Changes in Net Assets - Nonmajor Enterprise Funds Year Ended December 31, 2006

| | Park & Recreation | Commissary | Vested Benefits | Tax Revolving Admin | Delinquent Tax Prop Proceeds | 2003 Delinquent Tax | 2004 Delinquent Tax | Totals |
|--|----------------------|-----------------|--------------------|---------------------------|------------------------------------|---------------------------|---------------------------|-------------------|
| OPERATING REVENUES: | | | | | | | | |
| Charges for Services | \$ 198,156 | \$ 61,325 | \$ - | \$ - | \$ 28,517 | \$ - | \$ 32,074 | \$ 320,072 |
| Interest & Rentals | - | - | - | - | - | - | 40,462 | 40,462 |
| TOTAL OPERATING REVENUES | 198,156 | 61,325 | - | - | 28,517 | - | 72,536 | 360,534 |
| OPERATING EXPENSES: | | | | | | | | |
| Personnel Services | 92,453 | - | - | - | - | - | - | 92,453 |
| Utilities | 27,176 | - | - | - | - | - | - | 27,176 |
| Repairs & Maintenance | 23,270 | - | - | - | - | - | - | 23,270 |
| Other Supplies & Expenses | 43,775 | 60,858 | - | - | 24,327 | - | - | 128,960 |
| Depreciation | 13,399 | - | - | - | - | - | - | 13,399 |
| Total Operating Expenses | 200,073 | 60,858 | - | - | 24,327 | - | - | 285,258 |
| OPERATING INCOME (LOSS) | (1,917) | 467 | - | - | 4,190 | - | 72,536 | 75,276 |
| NON-OPERATING REVENUES (EXPENSES): | | | | | | | | |
| Interest Earnings | 2,077 | - | - | - | 85 | - | 17,408 | 19,570 |
| Total Non-Operating Revenues (Expenses) | 2,077 | - | - | - | 85 | - | 17,408 | 19,570 |
| Income (loss) before transfers | 160 | 467 | - | - | 4,275 | - | 89,944 | 94,846 |
| Operating Transfers In | - | - | 10,000 | - | - | - | - | 10,000 |
| Operating Transfers Out | - | - | - | (694) | - | (248,277) | - | (248,971) |
| CHANGES IN NET ASSETS | 160 | 467 | 10,000 | (694) | 4,275 | (248,277) | 89,944 | (144,125) |
| NET ASSETS, January 1 | 310,145 | 9,326 | 114,870 | 1,214 | - | 248,277 | 187,256 | 871,088 |
| NET ASSETS, December 31 | \$ 310,305 | \$ 9,793 | \$ 124,870 | \$ 520 | \$ 4,275 | \$ - | \$ 277,200 | \$ 726,963 |

County of Osceola, Michigan

Combining Statement of Cash Flows Nonmajor Enterprise Funds Year Ended December 31, 2006

| | Parks & Recreation | Commissary | Vested Benefits | Tax Revolving Admin | Delinquent Tax Prop Proceeds | 2003 Delinquent Tax | 2004 Delinquent Tax | Totals |
|---|-----------------------|-----------------|--------------------|---------------------------|------------------------------------|---------------------------|---------------------------|---------------------|
| Cash Flows From Operating Activities: | | | | | | | | |
| Cash Received From Customers or Users | \$ 198,156 | \$ 61,325 | \$ - | \$ - | \$ 28,517 | \$ 106,070 | \$ 661,671 | \$ 1,055,739 |
| Cash Payments to Suppliers/Others | (186,808) | (60,858) | - | - | (24,327) | - | - | (271,993) |
| Internal Activity - Receipts (Payments) to Other Funds | (5,600) | - | - | - | - | - | (1,000,000) | (1,005,600) |
| Net Cash Provided (Used) by Operating Activities | 5,748 | 467 | - | - | 4,190 | 106,070 | (338,329) | (221,854) |
| Cash Flows from Non-Capital and Related Financing Activities: | | | | | | | | |
| Net Operating Transfers In (Out) | - | - | 10,000 | (694) | - | (248,277) | - | (238,971) |
| Net Cash Provided (Used) by Non-Capital and Related Financing Activities | - | - | 10,000 | (694) | - | (248,277) | - | (238,971) |
| Cash Flows from Investing Activities: | | | | | | | | |
| Interest Income | 2,077 | - | - | - | 85 | - | 17,408 | 19,570 |
| Net Cash Provided (Used) by Investing Activities | 2,077 | - | - | - | 85 | - | 17,408 | 19,570 |
| Net Increase (Decrease) in Cash | 7,825 | 467 | 10,000 | (694) | 4,275 | (142,207) | (320,921) | (441,255) |
| Cash and Equivalents at Beginning of Year | 104,546 | 9,326 | 114,870 | 1,214 | - | 142,207 | 644,997 | 1,017,160 |
| Cash and Equivalents at End of Year | \$ 112,371 | \$ 9,793 | \$ 124,870 | \$ 520 | \$ 4,275 | \$ - | \$ 324,076 | \$ 575,905 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | | | | | | | | |
| Operating Income (Loss) | \$ (1,917) | \$ 467 | \$ - | \$ - | \$ 4,190 | \$ - | \$ 72,536 | \$ 75,276 |
| Non-cash and other nonoperating expenses: | | | | | | | | |
| Depreciation Expense | 13,399 | - | - | - | - | - | - | 13,399 |
| Changes in Assets and Liabilities: | | | | | | | | |
| Decrease (Increase) in Assets: | | | | | | | | |
| Taxes Receivable | - | - | - | - | - | 69,979 | 551,789 | 621,768 |
| Interest Receivable | - | - | - | - | - | 23,093 | 37,346 | 60,439 |
| Due from Others | - | - | - | - | - | 12,998 | - | 12,998 |
| Increase (Decrease) in Liabilities: | | | | | | | | |
| Due to Other Funds | (5,600) | - | - | - | - | - | (1,000,000) | (1,005,600) |
| Accounts Payable | 344 | - | - | - | - | - | - | 344 |
| Accrued Liabilities | (478) | - | - | - | - | - | - | (478) |
| Net Cash Provided (Used) by Operating Activities | \$ 5,748 | \$ 467 | \$ - | \$ - | \$ 4,190 | \$ 106,070 | \$ (338,329) | \$ (221,854) |

Reports on Compliance



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Chairman and Members of
The Board of Commissioners
County of Osceola, Michigan
301 West Upton Avenue
Reed City, MI 49677

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Osceola, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the County of Osceola, Michigan's basic financial statements and have issued our report thereon, dated May 29, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the (Osceola County Road Commission, a discretely presented component unit), as described in our report on the County's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County of Osceola, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Osceola's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the County of Osceola, Michigan in a separate letter dated May 29, 2007.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 29, 2007



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board
County of Osceola, Michigan
301 West Upton Avenue
Reed City, MI 49677

Compliance

We have audited the compliance of the County of Osceola, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2006. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County of Osceola, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

The management of the County of Osceola, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County of Osceola, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A control deficiency in a County's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the County's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Commissioners, audit committee, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 29, 2007

County of Osceola, Michigan

Schedule of Expenditures of Federal Awards Year Ended December 31, 2006

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
|---|------------------------|--|-------------------------|
| U.S. Department of Housing and Urban Development: | | | |
| Pass-through from the Michigan State Housing Development Authority (MSHDA) | | | |
| Community Development Block Grant - 2003 | 14.228 | MCS-2003-0541-HOA | \$ 121,248 |
| Total U.S. Department of Housing and Urban Development | | | 121,248 |
| U.S. Department of Homeland Security: | | | |
| Passed through the Michigan Department of State Police | | | |
| 2004 State Homeland Security Program Grant | 97.004 | N/A | 142,351 |
| 2004 State Homeland Security Program Grant | 97.004 | N/A | 22,000 |
| 2004 Law Enforcement Terrorism Prevention Program | 97.004 | N/A | 43,548 |
| Emergency Management Grant 10/01/05 to 9/30/06 | 97.042 | N/A | 14,549 |
| Subtotal Michigan Department of State Police | | | 222,448 |
| Passed through the Michigan Department of Natural Resources | | | |
| Boating Safety Financial Assistance | 97.012 | MS2006-FEDA | 14,205 |
| Total U.S. Department of Homeland Security | | | 236,653 |
| U.S. Department of Health & Human Services: | | | |
| Passed Through on Area Agency on Aging of Western Michigan | | | |
| Assisted Transportation, Title IIIB - 10/1/05 to 9/30/06 | 93.044 | 51.720 | 10,779 |
| Assisted Transportation, Title IIIB - 10/1/06 to 9/30/07 | 93.044 | 51.720 | 2,094 |
| Homemaker Aide, Title IIIB - 10/1/05 to 9/30/06 | 93.044 | 51.720 | 5,950 |
| Homemaker Aide, Title IIIB - 10/1/06 to 9/30/07 | 93.044 | 51.720 | 555 |
| Outreach Assistance, Title IIIB - 10/1/05 to 9/30/06 | 93.044 | 51.720 | 9,321 |
| Outreach Assistance, Title IIIB - 10/1/06 to 9/30/07 | 93.044 | 51.720 | 2,374 |
| Congregate Meals - Title IIIC-1, 10/1/05 to 9/30/06 | 93.045 | 61.720 | 23,952 |
| Congregate Meals - Title IIIC-1, 10/1/06 to 9/30/07 | 93.045 | 61.720 | 3,649 |
| Home Delivered Meals - Title IIIC-2, 10/1/05 to 9/30/06 | 93.045 | 61.720 | 51,196 |
| Home Delivered Meals - Title IIIC-2, 10/1/06 to 9/30/07 | 93.045 | 61.720 | 9,552 |
| Congregate Meals - NISP-T3C1, 10/1/05 to 9/30/06 | 93.053 | 61.720 | 14,932 |
| Congregate Meals - NISP-T3C1, 10/1/06 to 9/30/07 | 93.053 | 61.720 | 846 |
| Federal Respite - Title IIIIE - 10/01/05-09/30/06 | 93.052 | 51.720 | 7,992 |
| Federal Respite - Title IIIIE - 10/01/06-09/30/07 | 93.052 | 51.720 | 1,871 |
| Medicaid Waiver | 93.778 | N/A | 53,992 |
| Total pass through AAAWM | | | 199,055 |
| Passed through from Michigan Department of Human Services | | | |
| Friend of Court - Incentive 2005 | 93.563 | N/A | 10,956 |
| Friend of Court - Incentive 2006 | 93.563 | N/A | 20,265 |
| Friend of Court - Incentive 2007 | 93.563 | N/A | 10,009 |
| Friend of Court - Child Support 10/1/05 - 9/30/06 | 93.563 | CS/FOC-06-67001 | 147,232 |
| Friend of Court - Child Support 10/1/06 - 9/30/07 | 93.563 | CS/FOC-07-67001 | 52,857 |
| Prosecuting Attorney - Child Support 10/1/05 - 9/30/06 | 93.563 | CS/PA-06-67002 | 27,077 |
| Prosecuting Attorney - Child Support 10/1/06 - 9/30/07 | 93.563 | CS/PA-07-67002 | 10,927 |
| Total Michigan Department of Human Services | | | 279,323 |
| Total U.S. Department of Health & Human Services | | | 478,378 |
| U.S. Department of Justice: | | | |
| Direct Award: | | | |
| COPS in School | 16.710 | 2003 SHWX 0064 | 141,361 |
| Total U.S. Department of Justice | | | 141,361 |
| Total Expenditures of Federal Awards | | | \$ 977,640 |

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County of Osceola, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B - COGNIZANT AGENCY

The County has not been assigned a cognizant agency. Therefore, the County is under the general oversight of the U.S. Department of Justice which provided the greatest amount of direct federal funding to the County during 2006.

NOTE C - FEDERAL REVENUES RECONCILIATION

| | |
|---|-------------------|
| Federal Revenues per Financial Statement | \$ 993,343 |
| Less State Revenue classified as Federal Revenues | <u>(15,703)</u> |
| Total Federal Revenues | <u>\$ 977,640</u> |

Section I – Summary of Auditor’s Results

Financial Statements

| | |
|--|-------------|
| Type of auditors' report issued: | Unqualified |
| Internal control over financial reporting: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified that are not considered to be material weaknesses? | No |
| Noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|--|-------------|
| Internal control over major programs: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified that are not considered to be material weaknesses? | No |
| Type of auditors' report issued on compliance for major programs: | Unqualified |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? | No |

Identification of Major Programs**CFDA NUMBERS****Name of Federal Program or Cluster**

| | |
|---|----------------------------------|
| 16.710 | COPS in School |
| 97.004 | Homeland Security Grant Programs |
| Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| Auditee qualified as low-risk auditee? | Yes |

Section II – Financial Statement Findings

NONE.

Section III – Federal Award Findings and Questioned Costs

NONE.

Section II – Financial Statement Findings

*Significant Deficiencies – Non-Compliance*Excess Expenditures Over Appropriations*Finding 05-1*

Statement of Condition/Criteria: Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the County's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The General Fund budget is adopted at the functional level and the Special Revenue funds are adopted in total. During the year ended December 31, 2005 the County incurred expenditures in certain budgetary funds which were in excess of the amount appropriated as follows:

| | <u>Total Appropriations</u> | <u>Amount of Expenditures</u> | <u>Budget Variance</u> |
|-------------------------|---------------------------------|-----------------------------------|----------------------------|
| Special Revenue: | | | |
| Revenue Sharing Reserve | \$ | - \$ 492,414 | \$ (492,414) |

Effect: The County has not complied with various State Statutes.

Cause of Condition: Failure to adopt a budget for the Revenue Sharing Reserve Fund during the year.

Recommendation: The County should adopt a budget for the Revenue Sharing Reserve Fund.

Management's Response – Corrective Action Plan: A budget will be adopted for this Fund in subsequent years.

Status: Corrected.

Additional Information

COUNTY OF OSCEOLA, MICHIGAN

ADDITIONAL INFORMATION

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MICHIGAN & WISCONSIN

INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

Honorable Chairman & Members
of the Board of Commissioners
County of Osceola, Michigan
301 West Upton Avenue
Reed City, MI 49677

Our report on our audit of the basic financial statements of the County of Osceola, Michigan, as of and for the year ended December 31, 2006, appears on page 1. That audit was conducted for the purpose of forming opinions on the basic financial statements which collectively comprise the County of Osceola, Michigan. The additional information listed on the following pages regarding the Municipal securities disclosure requirements of the Securities Exchange Commission (SEC) Rule 15c2-12 is presented for purposes of additional analysis and is not a required part of the basic financial statements, and accordingly, we express no opinion on it.

Anderson Tackman Co. PLC

Anderson, Tackman & Company, PLC
Certified Public Accountants

May 29, 2007

NOTE 1 - DEBT ISSUES APPLICABLE TO SEC RULE 15c2-12 DISCLOSURE REQUIREMENTS:

Debt issues of \$1,000,000 or more sold on or after July 3, 1995 are applicable to SEC rule 15c2-12 disclosure requirements. As of December 31, 2006, the County has the following debt issues which apply to SEC Rule 15c2-12:

1. \$1,600,000 1998 Building Authority Bonds.
2. \$3,750,000 2004 Building Authority Bonds.

NOTE 2 - TABLES:

The following tables are included in the debt issues and are required to be updated annually to comply with the Municipal Securities disclosure requirements of the SEC Rule 15c2-12:

A. State Equalized Valuation:

| | 50% of True Value |
|--------|-------------------|
| 2006 - | \$ 949,629,255 |
| 2005 - | 888,906,029 |
| 2004 - | 826,439,091 |
| 2003 - | 780,322,226 |
| 2002 - | 700,343,370 |
| 2001 - | 629,252,918 |
| 2000 - | 578,532,624 |
| 1999 - | 516,397,514 |
| 1998 - | 459,473,855 |
| 1997 - | 421,524,170 |

Source: Osceola County

B. Taxable Valuation:

| | |
|--------|----------------|
| 2006 - | \$ 625,999,069 |
| 2005 - | 596,513,644 |
| 2004 - | 566,650,491 |
| 2003 - | 543,030,238 |
| 2002 - | 511,089,219 |
| 2001 - | 479,380,961 |
| 2000 - | 452,860,768 |
| 1999 - | 424,045,357 |

2006 Breakdown by Use

| | |
|-------------------|---------------|
| Residential | 65.76% |
| Commercial | 5.60% |
| Industrial | 3.39% |
| Personal Property | 14.90% |
| Agricultural | <u>10.35%</u> |

| | |
|-------|---------|
| TOTAL | 100.00% |
|-------|---------|

NOTE 2 - TABLES: (Continued)

| <u>2006 Breakdown by Class</u> | |
|--------------------------------|---------------|
| Real | 85.10% |
| Personal | <u>14.90%</u> |
| TOTAL | 100.00% |

Source: Osceola County

C. County Tax Rates & Levies:

| | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> | <u>2002</u> |
|-------------------------|--------------|--------------|--------------|--------------|--------------|
| County Operating | 6.4035 | 6.4035 | 6.4138 | 6.4138 | 6.4636 |
| Mecosta-Osceola I/S/D | .2495 | .2496 | .2500 | .2411 | .2434 |
| Wexford-Missaukee I/S/D | <u>.2714</u> | <u>.2730</u> | <u>.2749</u> | <u>.2761</u> | <u>.2792</u> |
| TOTAL ALL JURISDICTIONS | 6.9244 | 6.9261 | 6.9387 | 6.9310 | 6.9862 |

Source: Osceola County

D. Tax Collection Record:

County of Osceola pays from a 100% Tax Payment Fund the delinquent real property taxes of all municipalities in the County, including the County. Delinquent personal property taxes are negligible. The County's fiscal year begins January 1. County taxes are due December 1 and become delinquent the following March 1.

| <u>Year</u> | <u>Tax Levy*</u> | <u>Amount**</u> | <u>%</u> | <u>%</u> |
|-------------|------------------|-----------------|----------|----------|
| 2006 | \$ 20,708,637 | \$ 18,654,097 | 90.08% | -% |
| 2005 | 19,733,518 | 17,740,158 | 89.90% | 100% |
| 2004 | 18,851,394 | 16,949,069* | 89.91% | 100% |
| 2003 | 17,262,790 | 15,466,753 | 89.60% | 100% |
| 2002 | 16,108,902 | 14,191,026 | 88.09% | 100% |
| 2001 | 15,855,306 | 14,011,240 | 88.36% | 100% |
| 2000 | 15,265,610 | 13,125,865 | 85.99% | 100% |
| 1999 | 14,177,977 | 12,326,540 | 86.94% | 100% |
| 1998 | 13,457,294 | 11,573,273 | 86.00% | 100% |
| 1997 | 13,256,204 | 11,466,616 | 86.50% | 100% |
| 1996 | 12,886,399 | 11,194,889 | 86.87% | 100% |
| 1995 | 12,095,165 | 10,283,004 | 85.02% | 100% |

*Includes real and personal property taxes.

** 246,923 additional levy.

Source: Osceola County

NOTE 2 - TABLES: (Continued)

E. General Fund Revenues and Expenditures:

| | <u>2006</u> | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--------------------------------|---------------------|---------------------|---------------------|---------------------|
| Revenues & Transfers In | \$ 7,152,485 | \$ 7,039,190 | \$ 6,613,649 | \$ 6,712,465 |
| Expenditures & Transfers Out | <u>7,076,542</u> | <u>6,846,068</u> | <u>6,954,385</u> | <u>6,512,541</u> |
| Excess Revenues (Expenditures) | 75,943 | 193,122 | (340,736) | 199,924 |
| Beginning Fund Balance | <u>1,355,511</u> | <u>1,162,389</u> | <u>1,503,125</u> | <u>1,303,201</u> |
| ENDING FUND BALANCE | <u>\$ 1,431,454</u> | <u>\$ 1,355,511</u> | <u>\$ 1,162,389</u> | <u>\$ 1,503,125</u> |

Source: Osceola County

F. Debt Statement:

| | <u>Gross</u> | <u>Net</u> |
|------------------------|---------------------|---------------------|
| Direct Debt of County: | | |
| Building Authority | \$ 4,650,000 | \$ 4,650,000 |
| Capital Improvements | <u>710,000</u> | <u>710,000</u> |
| Total | <u>\$ 5,360,000</u> | <u>\$ 5,360,000</u> |

In addition to the above, the County issues self-supporting Limited Tax Delinquent Fund Tax Notes each year which mature in 1 to 3 years. The last tax note was paid in full in March 2001. The County does not plan to issue tax notes in 2006.

| | |
|--------------------------------------|-----------|
| Per Capita County Net Direct Debt | \$ 229.40 |
| Percent County Net Direct Debt to TV | .85% |

OVERLAPPING DEBT OF COUNTY:

| | |
|--|----------------------|
| School Districts | \$ 24,579,271 |
| Cities | 303,000 |
| Townships | - |
| Villages | - |
| Intermediate School Districts | <u>1,805,000</u> |
| Net Overlapping Debt | <u>\$ 26,687,271</u> |
| Net County and Overlapping Debt | <u>\$ 32,047,271</u> |
| Per Capita County Net Direct and Overlapping Debt | \$ 1,371.59 |
| Percent Net Direct and Overlapping Debt to 2006 TV | 5.10% |

Source: County of Osceola and Municipal Advisory Council of Michigan



ANDERSON, TACKMAN & COMPANY, PLC
CERTIFIED PUBLIC ACCOUNTANTS

KINROSS OFFICE

PHILLIP J. WOLF, CPA, PRINCIPAL
SUE A. BOWLBY, CPA, PRINCIPAL
KENNETH A. TALSMAN, CPA, PRINCIPAL

DEANNA J. MAYER, CPA

MEMBER AICPA
DIVISION FOR CPA FIRMS

MEMBER MACPA

OFFICES IN
MICHIGAN & WISCONSIN

REPORT TO MANAGEMENT

Members of the Osceola County
Board of Commissioners
301 West Upton Avenue
Reed City, Michigan 49677

We have audited the financial statements of the County of Osceola for the year ended December 31, 2006, and have issued our reports thereon dated February 28, 2007. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the County of Osceola's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County of Osceola's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County of Osceola's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the County of Osceola's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County of Osceola's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the County of Osceola are described in Note 1. No new accounting policies were adopted and there were no changes to the application of any existing policies during the fiscal year. We noted no transactions entered into by the County of Osceola during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Our conclusions regarding the reasonableness of the estimates are based on reviewing and testing the historical data provided by management and using this data to compute the liability.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the County of Osceola's financial reporting process (this is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the County of Osceola, either individually or in the aggregate, indicate matters that could have a significant effect on the County of Osceola's financial reporting process.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County of Osceola or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Comments and Recommendations

701 Fund Account

It was noted that the 701 fund account #000020-231010-00 (BCBS Hospitalization) has a balance that has been slowly accumulating for the past several years. This balance is in excess of the amount paid out to BCBS and at the close of the 2006 year totaled \$19,995. It is recommended that this balance be transferred to the General Fund and that it not be allowed to accumulate in the future.

Summer Tax Levy

With the change in the funding of Revenue Sharing various issues have surfaced. The State allowed Counties to place an amount equal to 1/3 of their 2004 levy for three years from the 2004, 2005, and 2006 levies in a Reserve fund each January. To replace this 1/3 taken from the operating levy the County is allowed to levy a summer tax beginning in July of 2005. 1/3 of the 2005 levy, 2/3 of the 2006 levy and 3/3 of the 2007 levy would be summer collections. This process of funding would allow the Counties to still fund Revenue Sharing and still receive 100% of their operating levies each year. One area of concern is that the summer collections are not completely received in cash at year end. Furthermore, what is not collected is not received until settlement in the subsequent year. This creates a cash flow shortage which can be alleviated by borrowing from the Revenue Sharing Reserve Fund. It also creates a revenue recognition issue in that the revenue is not collected within 60 days of year end. It is collected when tax settlement occurs in March. In summary, because the legislature intended that the summer levy would make the Counties operating levy whole, we recommend that taxes receivable and taxes revenue be recorded to account for the uncollected summer levy at year end. Also, the County should consider the effects of the above changes on its cash flow needs.

Fraud Policy

With the implementation of statement of Auditing Standards No. 99, auditors are required to assess policies and procedures regarding fraud risks within a governmental entity. The board does not have a "fraud policy" which would address fraud or suspected fraud and related board actions. We recommend the Board adopt a fraud policy in compliance with SAS No. 99.

Personal Property Taxes

Currently, the County is not recording the amount of outstanding delinquent personal property taxes that are due to the County in the general ledger. It is recommended the County record the amount of outstanding delinquent personal property taxes in the general ledger of each fund that has a tax levy. The County should maintain subsidiary ledgers which show the amount of delinquent personal property taxes owed by each taxing unit by individual tax year.

Conclusion

We would like to express our appreciation, as well as that of our staff, for the excellent cooperation we received while performing the audit. If we can be of assistance in implementing the above recommendations, please contact us.

This report is intended solely for the information and use of the Board of Commissioners, management, federal awarding agencies, pass-through entities and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.



Anderson, Tackman & Company, PLC
Certified Public Accountants

May 29, 2007